EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

BRUSSELS

Struggle to remove takeover barriers

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World News

Congress set to lose seats in Indian assembly

Prime Minister Rajiv Gandhi's Congress Party appeared to be heading for defeat last night in a general election likely to herald a period of political instability in India. Early trends in the counting suggested that the Congress party would win about 200 of the 525 contested seats, compared with the 415 it won in 1984. Page 20; Bitterness and mistrust; Rise of VP Singh, Page 2

Hrawi challenge

Elias Hrawi, Lebanon's new president, said he will use force if necessary to break General Michel Aoun's hold on the Christian enclave. Gen Aoun vowed not to submit without a fight.

Salvador breaks ties

El Salvador suspended diplomatic and commercial relations with Nicaragua following the discovery of an arms shipment of 24 surface-to-air missiles on a light aircraft which allegedly came from Nicaragua. Page 3

W Bank arrests

Israeli troops lifted curfews on more than 14,000 Arabs in the occupied West Bank after making scores of arrests, residents and the army said.

Uruguayans vote

Uruguayans voted in their first free elections for 18 years, with some casting their ballots for one-time guerrillas, political prisoners and others who suffered under more than a decade of repression by the armed forces.

Poles burn cards

Some 200 young Poles protesting against conscription marched across Warsaw towards the presidential palace and some publicly burnt their army identity cards. Soviet visit, Page 4

Yemen unity 'closer'

North and South Yemen have narrowed differences on unification and are pressing ahead to reach agreement soon, South Yemen's Minister for Unity Affairs Rashid Mohammed Thabit said.

Cambodia fighting

Cambodian guerrillas of the Khmer People's National Liberation Front breached government positions on the outskirts of a strategic north-western town near the Thai border and claimed to hold 70 per cent of the town of Svay Chek.

Roh visits UK

President Roh Tae Woo of South Korea arrives in Britain today for an official visit which will concentrate on trade and business issues, with Korean barriers to British whisky imports certain to be raised. Page 5

Yes for Swiss army

Swiss voters rejected by a majority of less than 2-1 a draft law to abolish the country's militia army by the year 2000, in a referendum without precedent worldwide. Page 3

Ukrainians march

More than 150,000 people carrying portraits of Pope John Paul marched through the west Ukrainian city of Lvov demanding the legalisation of the Ukrainian Catholic Church. Page 4

ANC rally

Two people were killed and several injured in the black homeland of Transkei when tear gas and gunshots were fired at a church rally welcoming four African National Congress leaders.

Kvant-2 problems

A Soviet module heading for the orbiting space station Mir developed difficulties with one of its solar batteries, Tass news agency said. The Kvant-2 module developed a problem after separating from the Proton rocket which launched it yesterday.

US sumo victory

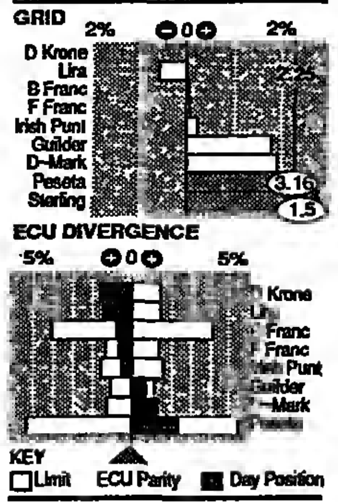
Hawaiian-born sumo wrestler Konishiki became the second foreign wrestler to win a major Japanese tournament when he forced his Japanese opponent out of the ring. Page 3

Business Summary

Grenfell tries to fend off takeover with bank deal

MORGAN Grenfell, London merchant banking group, is expected to announce today that it has struck a deal with Deutsche Bank, after a weekend of last-ditch negotiations to fend off a likely takeover bid from Banque Indosuez, French bank. Page 6

EUROPEAN Monetary System: Demand for the D-Mark - the dollar fell below DM1.80 for the first time since January, at one stage on Friday - renewed speculation about an early EMS realignment. The lira was the weakest EMS member, but is allowed a wider cross rate limit than most other currencies and was not under any immediate pressure. The French franc was weak, but did not appear to suffer from suggestions that remaining French currency controls will be scrapped next month. Currencies, Page 38



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies. Calculations based on Monday-Thursday data. Friday data not available.

GENERAL Motors has begun supplying engines from South Korea to its operations in West Europe for the first time, in order to alleviate production bottlenecks and lack of capacity at its European engine plants. Page 5

THE OECD has called on the US to carry out radical changes in its tax system to remove impediments to saving. Page 3

DEFENCE: The British Government is making urgent efforts to arrange a bank loan of around £2bn ($3.15bn) to finance continued Saudi Arabian purchases of military equipment under the UK's huge Al-Yamamah defence contract. Page 20

ENIMONT, Italian public-private chemicals joint venture, looks set for a starring role on the Milan stock exchange because of serious doubts about whether Mr Raul Gardini's Montedison ultimately intends to hang on to its 40 per cent stake. Page 25

OIL: Pressure is building in Norway, Western Europe's second largest oil producer after Britain, to abandon a 7.5 per cent curb on crude oil production. Page 20

CAMFIL, a privately owned Swedish filtration company, is to buy Sofiltra-Poelman, industrial filters subsidiary of the leading French glass and pipes group Saint Gobain. Page 25

IBCA, London-based rating agency specialising in bank credit analysis, promoted five Japanese banks to its top-rated AAA category bringing to 13 the number of international banks given its highest rating: Japanese banks were previously absent. Page 25

AUSTRALIA: The Government unveiled details of its first reverse bond tender to retire federal government domestic debt, confirming its continuing withdrawal as a borrower and forcing a significant adjustment on the country's capital markets. Page 25

JAPANESE banks' profits have been squeezed by rising interest rates, forcing some of them to announce their first reductions in interim net profits since 1981, the year they started reporting interim figures. Page 25

A million protesters march as Czech premier meets Civic Forum opposition group

Adamec opens direct talks

By John Lloyd in Prague

MR LADISLAV ADAMEC, Czechoslovakia's Prime Minister, yesterday threw aside the grudging response of the country's Communist Party to the demand for political reform and entered into direct negotiations with the opposition movement, Civic Forum.

As the historic talks got under way up to one million people marched in cities across the country calling for democracy.

The dispirited Communist party's decision-making central committee later began an evening crisis session, its second in three days.

Mr Adamec, along with two senior party officials, held talks with a nine-member delegation from Civic Forum, headed by Mr Vaclav Havel, the dissident playwright.

Yesterday's talks, which lasted an hour, marked the first occasion on which the country's opposition movement has forced the government into negotiations. Both sides agreed to meet again tomorrow.

The nine opposition delegates presented the Prime Minister with demands which they say should be met by them. These include the release of all political prisoners - about 30 on the opposition's count - an end to censorship and an independent inquiry into security force violence against peaceful demonstrators on November 17.

The dialogue with the opposition followed the decision of Mr Karel Urbanek, the new Party leader, to break with the refusal of his predecessor, Mr Milos Jakes, to talk with critics. "We have become isolated from the people and the truth," Mr Urbanek said on Saturday, one day after replacing Mr Jakes, who resigned along with the entire Party secretariate, or top leadership, on Friday evening.

Later yesterday, Mr Adamec, who quit his Politburo and government posts last Friday but is staying on as a caretaker head of government, told a flag-waving crowd of 400,000 demonstrators on Prague's snow-swept Letna parade ground that the Forum's demands would be relayed to the party central committee, which met in a second crisis session last night.

He called for national unity and the participation of all peoples of good will - but was booed and whistled when he called for calm and suggested that the two hour strike called for today might be cut to two minutes. Mr Adamec said: "There is no time for disagreement and fights for prestige....people will judge us by our ability to overcome the past."

His appearance on the rostrum was followed by one from Mr Alexander Dubcek, the former Communist Party leader deposed by the Warsaw Pact invasion in 1968, who gave his most powerful speech yet. He demanded that the Czechoslovak party - and with it the Soviets, East Germans and Bulgarian party leadership - apologise for the invasion.

Czech opposition leader Vaclav Havel (left) shakes hands with Prime Minister Ladislav Adamec at the start of their talks in Prague yesterday

Mr Dubcek, who is now regarded by many as a serious candidate for the Presidency, directly contradicted Mr Adamec's call for calm. Addressing the largely youthful crowd, he said: "Twenty one years ago your fathers and mothers were fighting, and now you are fighting. Thank you for your initiative and your fathers and mothers are with you."

Mr Vaclav Havel the Civic Forum leader, said that the opposition had called for popular support for Mr Adamec, on the grounds that he was waging a battle with party hardliners. Nevertheless the Prime Minister was met with cries of "resign" by many in the crowd.

Over 700 factories and enterprises have voted to support an opposition call for the strike. Mr Havel has described the action as a referendum on the party's power monopoly.

Mr Karel Urbanek the new 48 year old party General Secretary, appeared on TV late on Saturday night to apologise for party corruption and arrogance and promised deep and radical reform. It was clear however that a growing movement within the party now demands a complete sweeping away of the leadership: the Prague activists' conference demanded a party congress with freshly elected delegates and the power to re-elect a new Central Committee.

Czech spirit blooms in the Prague winter

By Judy Dempsey in Prague

THEY CAME from south Moravia and north Bohemia, from Kosice and Bratislava to join in this massive reawakening of the Czech spirit which, after 21 years of silence, burst out to full bloom on Letenske Plain, a vast space not far from Hradcany Castle.

While the Communist Party elite moved out of the Castle, once the home of the kings of Bohemia, to hold an emergency central committee session in the Party school, the crowds began to take power into their own hands.

In bitterly cold temperatures of minus 5 centigrade, they heard people, who were once muted by the repressive regime, now speak the language of freedom and truth.

On Saturday afternoon, Mr Vaclav Havel, the once shy and modest playwright, received a tumultuous welcome which resounded throughout Prague.

"Na Hrade," – to the Castle, they roared.

Mr Alexander Dubcek, who spearheaded the Prague Spring of 1968, who joined the podium on Saturday, received the same compliments. For the people, both men are deemed fit citizens to take over the mantle of the Presidency.

Many of the half a million people, coloured by a sea of Czechoslovak red, white and blue flags, wound their way down from Letenske Plain to the old city and again converged on Wenceslas Square.

By the early hours of yesterday, the square was a veritable information centre. Young students, armed with independent newspapers hot off the printing presses, gave them away freely to taxi drivers and anyone walking up this majestic boulevard. Even at 2am, the younger generation of Czechoslovaks were eager for more action.

Shops are now plastered with posters, slogans, dates of meetings, demonstrations, some calling for a general strike, others calling for free elections. But most of them proudly display one name: Obcanske Forum – the Civic Forum, which, with remarkable speed and organisation, has brought together all the disparate elements of the opposition.

Its headquarters are located in the basement of the Magic Lantern Theatre, just off Wenceslas Square. There, while the cohorts of the Civic Forum spend hours locked away in consultations over their next move and how they should talk to Mr Ladislav Adamec, the Prime Minister, Mr Jan Urban, head of Obruda, a banned organisation for those party members who have been expelled by the country's former party chief, Mr Milos Jakes, remained on the ground floor of the theatre.

It is he who picked the timetable of press conferences, briefings, circulars and information flowing freely as if he was trained in public relations.

Crowds gather outside to catch the latest news about what the Civic Forum is doing. A television, perched on a window sill, broadcasts regular bulletins throughout the day. The people are excited. Students flock in to help type statements or distribute them. Everyone has become a politician or a campaigner.

Just like the staff in many of the hotels along Wenceslas Square who have the radio and television on all day and who are now taking politics into their own homes.

The local party branch in the Jolta Hotel has a trite notice displayed on its front door, disowning the party's brutal attack on the young student demonstrators on the

Continued on Page 20

EASTERN EUROPE

Airbus finance chief set to quit

By Paul Betts, Aerospace Correspondent, in London

AIRBUS INDUSTRIE'S top management seems set to be thrown into turmoil with the imminent resignation of Mr Robert Smith, who was recently appointed the group's finance director as part of an overhaul of its management.

The likely resignation coincides with the launch yesterday of the $480m research and development programme for Airbus' new A-321 aircraft.

The four nation European aircraft manufacturer will fund the programme by raising money on the financial markets for the first time, rather than relying on traditional government support.

Airbus is close to finalising details of the package with a group of banks. The move highlights the consortium's efforts to adopt a more commercial approach.

Airbus officials confirmed yesterday the formal launch of the new A-321 short to medium range 186 seat aircraft, a stretched derivative of its best selling 150 seat A-320, but declined to comment on the expected resignation of the British finance director.

Mr Smith was seconded from British Aerospace's Royal Ordnance defence subsidiary seven months ago to take over the post of Airbus finance director which was specially created as part of a broad overhaul of the consortium's management structure earlier this year.

The financial post, coupled with the streamlining of the consortium's top management, was designed to help cut costs and give Airbus a more business-like and market-orientated management structure.

However, Mr Smith appears to have grown increasingly disenchanted over the difficulties of improving the efficiency of the consortium's financial structures and he is understood to have decided to resign. He is not expected to return to BAe.

He would become the second BAe executive to leave Airbus in recent weeks. Mr Adam Brown, the former vice-president in charge of strategy at Airbus, left the consortium last month after criticising BAe's attitude towards the four nation aircraft manufacturing group.

The four partners in the Airbus consortium include Aerospatiale of France (37.9 per cent), Messerschmitt-Bölkow-Blohm of West Germany (37.9 per cent), BAe (20 per cent) and Casa of Spain (4.2 per cent).

The top management strains at Airbus come at a time when the European consortium is enjoying record orders and is seeking to convert its commercial breakthrough in the world civil aircraft market into financial success.

But the consortium has continued to be shaken by a series of disputes between its partners and the nationalistic rivalries of their respective governments.

This has included a major row over West German demands, fiercely opposed by France, for the transfer of the final assembly of the A-320 from Toulouse in south-west France to Germany.

Further clouding the horizon for Airbus is continuing uncertainty over the intentions of Mr Jean Pierson, the consortium's chief executive and one of the principal architects of the recent commercial successes of the group, to seek a

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Details, Page 3

Britain and Vietnam agree cash deal over boat people

By Roger Matthews in Hanoi and John Elliot in Hong Kong

BRITAIN is to pay Vietnam $620 for each refugee forcibly repatriated from Hong Kong under a confidential agreement signed last Wednesday, according to Vietnamese officials.

The agreement covers only the first planned flight, which will carry some of the 40,000 Vietnamese currently held in camps in Hong Kong who may not qualify as refugees. The first flight is expected to arrive in Vietnam in mid-December and certainly before Christmas.

The sum paid for refugees on further flights would have to be negotiated separately, officials in Hanoi said.

Under the deal Britain has to pay the full amount five days before each flight, officials said. The final payment would be adjusted according to the number of people who actually arrived.

Officials added that their experience of earlier flights carrying refugees who were voluntarily repatriated was that far fewer arrived than had been originally indicated by Britain.

The first group will probably travel on a 120 seater Boeing 737 chartered by the Hong Kong Government. It would be the start of a mass removal of all but 16,000 of the boat people held in Hong Kong.

The Hong Kong Government is also examining the possibilities of chartering larger aircraft, or even ships such as troop carriers and passenger liners with capacities of up to 1,000.

Refugees returning to Vietnam face a difficult future. Although the Government has this year brought the runaway inflation of 1988 under control and stabilised the exchange rate, it has been at substantial cost. The removal of subsidies from many state enterprises has thrown hundreds of thousands out of work and pushed the unemployment rate up to well over 20 per cent. Many more are underemployed.

Vietnamese officials added that among the people due to be returned were criminals "who would now be forced to suffer the penalty" and single women with children, whose prospects in Vietnam would be very limited. They questioned whether the act of returning

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Mr Li Ka-shing, who runs a Hong Kong business empire worth over $3bn, faces the dilemma of whether to move his group's domicile out of the colony, thus keeping international investors but damaging local business confidence Page 42

Constitution poses problems for President

By K.K Sharma in New Delhi

THE Indian Presidency has rarely been in a position where it has been forced to play a political role. Like the British monarchy on which it is based, the office has mostly ceremonial functions.

This week, however, 78-year-old Mr Ramaswami Venkataraman, the present incumbent, will be called on to make decisions that will not only determine which party or combination of parties will form the next Government, but will also set constitutional precedents.

Mild-mannered, soft-spoken and retiring, Mr Venkataraman has had a distinguished and non-controversial political career. He is widely expected to act independently this week when he performs his constitutional duties.

Mr Venkataraman intervened firmly last week when he asked the Election Commission to inquire into complaints about unfair election practices at Amethi, where Prime Minister Rajiv Gandhi contested the election. Opposition members who met the President with their complaints quoted him as saying that democracy and violence cannot go together.

Mr Venkataraman has been bombarded with advice on how to exercise the Presidential discretion from constitutional experts, politicians and newspaper commentators. India's constitution is unclear about the powers of the President and says merely that he should invite the leader of a party who commands majority support in the Lok Sabha (lower house of Parliament) to form the Government.

Mr Venkataraman faces crucial decisions over three issues. The first is, who should be called to form the new Government. Second, whether he should dissolve the previous Lok Sabha whose term lasts till January 14, 1989. Third, what should be done about checking "defections", or members switching parties after being elected.

Mr Venkataraman has been urged not to act on the advice of Mr Gandhi, whose ruling Congress Party still has a majority in the existing Lok Sabha. Constitutional experts have reacted with horror to the possibility of Mr Gandhi continuing in power when he has clearly lost his mandate. In deciding on who should form the next Government, the President can call on Mr Gandhi as leader of the largest single party. This is in line with the constitutional practice of letting the largest party have first try.

Alternatively, he can decide to call on the leader of the Janata Dal as the largest group opposing Congress. This would be in keeping with the practice of allowing the Opposition to form the Government when the ruling party has no chance of doing so.

Taking the realities of the situation into account, the President seems most likely to call the leader of the National Front, Mr V.P. Singh, as the leader best placed to form an administration with a majority in the Lok Sabha. Mr Venkataraman really has no Indian precedent to guide him except for the events that followed the resignation of Mr Morarji Desai as Prime Minister in 1979 when the Janata combine cracked up.

The then President, Mr N. Sanjiva Reddy, first called Mr Y.B. Chavan, leader of the (Congress) Opposition to try to form the Government. When Mr Chavan failed, Mr Reddy asked Mr Charan Singh, leader of a Janata breakaway group supported by the Congress, to be Prime Minister. Mr Charan Singh resigned a few months later when Congress withdrew its support.

The only authoritative advice available to the President is that given by Mr Justice Sarkaria in a report on centre/state relations. Mr Sakaria says, in speaking about selecting a chief minister in a state where there is no clear majority, that the governor should invite a leader of an alliance of parties formed before an election, if the alliance is the largest party.

Mr Venkataraman is believed to have been studying all such authorities as well as past precedents in Britain and India in preparation for his task this week.

Mr Nani Palkhivala, the noted constitutional lawyer, says whatever the President does will "become an established precedent, for good or evil, which would probably be followed when a similar situation arises hereafter".

Mr Palkhivala says: "The President has to ensure that a "hung" Parliament does not result in public morality being hanged. Few people realise that a high moral tone is of the essence in the Indian constitution. The President has to make such a value-based decision that democracy may survive in India beyond our own times".

Vote counting in New Delhi is disrupted by disputes over the validity of ballot papers

Leaders must overcome bitterness and mistrust

By David Housego in New Delhi

AS India's opposition leaders last night began to face up to the prospect of forming an administration, it was clear that the difficulties will be as great as any they had imagined.

After the violence that marked the polling and the allegations of rigging in Prime Minister Rajiv Gandhi's own constituency of Amethi, it was also clear that cabinet making would take place in an atmosphere of bitterness and mistrust.

Opposition supporters are likely to take to the streets if they feel that Mr Gandhi's Congress party – or the President – are attempting to deprive them of the right they feel they have won at the ballot box.

Congress, on the basis of early returns, will have about 200 of the 525 seats contested in the new Assembly and will therefore remain the single largest party. But against the combined Opposition of the National Front, the radical Hindu BJP and the Marxists, it is unlikely to be in a position to form a government.

With the balance of power shifting in the party from the north (where Congress suffered its major reverses) to the south (where it gained more seats than expected), and with uncertainty now over Mr Gandhi's future, the party is in for a traumatic period. But it is still in a more buoyant mood to resist splits that if had dropped to below 150 seats, as some had expected.

The National Front, the coalition of Opposition parties led by Mr V.P. Singh and now the second largest group in the Assembly, did less well than it had expected. Its major reverse was that its regional partners – the Telugu Desam in Andhra Pradesh and the DMK in Tamil Nadu – were humiliated by Congress. This robs the Front of much of its claim to be a national party with strong roots in the regions.

Instead, the Front, as it emerges in the Assembly, will largely be composed of the northern-based Janata Dal – mainly farmers' interests and former Congressmen. The one advantage of this narrower base for Mr V.P. Singh will be that it should be more cohesive and easier to control.

But the other setback for the Front is that, while it has emerged weaker than expected, its two partners in the campaign to defeat Mr Gandhi have both emerged stronger.

The militant Hindu BJP party, which has grown in strength on the back of Hindu revivalism, will increase its presence in the Parliament from two to around 60. At the same time, the Marxists could obtain over 50 seats with Mr Jyotu Basu's CPM party in West Bengal exceeding most forecasts.

A National Front spokesman last night, putting the best face on the party's disappointment, called the result a "verdict for coalition government". Party leaders will meet in the next few days to see how this can be achieved.

But to achieve a majority in the new Assembly, the National Front seems likely to need the support of both the BJP and the Marxists. Mr L.K.Advani, the BJP leader, said last night that his party would not join a government which had Communists in it. The Marxists have taken the same view about the BJP which they regard as playing a major role in increasing Hindu-Moslem tensions in northern India.

The prospect is therefore that the National Front will have to form a minority administration, looking for outside support from the BJP to the right and the Marxists to the left. This has always been regarded as the worst recipe for stability.

It will none the less be a situation that will encourage the National Front to seek defections from Congress in an effort to build a stronger centrist administration. This is what Mr Singh has had in mind when he has talked about a "realignment of Indian politics".

The prospects of a National Front government holding together for long in such circumstances are not good. A similar Janata coalition that came to power in 1977 held together for two years. The unhappy memory of that experience may be a factor for stability this time round.

Popular crusader convinced of emerging the victor

David Housego reports on the rise to prominence of Opposition leader V.P. Singh

WHATEVER doubts others may have had about his leadership qualities, Mr Vishwanath Pratap Singh, the Opposition leader, has long been convinced that he would emerge as Prime Minister.

Ten months ago, travelling to Delhi on the same plane as some Congress leaders who began to taunt him about the divisions within the Opposition, Mr Singh suddenly provoked a pin-drop silence by proclaiming in a loud voice: "You wait and see. I will be the next Prime Minister of India."

This election campaign has enhanced his claims to the job. Among the senior Opposition leaders; he is now the only one with credibility as a national leader. Almost everywhere he has travelled in the northern Hindi speaking belt, he has been acclaimed by large crowds – in sharp contrast to Prime Minister Rajiv Gandhi – seemingly anxious through their acclaim to annoint him as their leader.

Mr Singh's conviction that he will become Prime Minister stems in part from the sense of certainty that goes with his crusading zeal. He sees his mission as restoring the dignity of India's democratic institutions, bringing back honesty and moral values into public life and, more recently, removing some of the bitterness that has increasingly marked Hindu-Moslem relations.

The simplicity of his own life-style – travelling by train and car though the campaign, often on his own and carrying a small suitcase – has underlined his attacks on Mr Gandhi's Government over corruption and the Bofors scandal. He has plunged into the crowds and seemed to make himself familiar with their problems, again in contrast to Mr Gandhi who has had to work with the handicap of massive security protection.

As an Opposition leader, Mr Singh's weakness has been that he has let party quarrels get out of hand and at times seemed unable to exert his own authority. His strength has been to work out what emerged as a successful long term strategy and then to ensure that his partners stuck with it.

As Prime Minister, the risk is that he will continue to be irresolute and indecisive. He will suffer from the weakness that he will have few men that he can call his own in the new Parliament. He believes strongly in advancing by consensus and is therefore likely to replace Mr Gandhi's highly personal Government with a more cabinet system of decision making.

Mr Singh would bring to the job considerable experience of government. He was Finance Minister under Mr Gandhi where he was responsible for the initial measures of liberalisation and for much greater transparency in preparing the Budget.

In terms of economic management, he seems likely to give priority to curbing budget and balance of payments deficits that he sees as the cause of inflation and India's worsening domestic and international debt. He will need to take hard decisions rapidly because India's diminishing foreign exchange reserves are increasingly forcing it to look to a further loan from the IMF.

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OVERSEAS NEWS

Cheney set to brief Nato on proposed US defence cuts

By David White, Defence Correspondent

MR DICK CHENEY, the US Defence Secretary, is expected this week to give Nato allies further indications of the extent and nature of the cuts being contemplated in the Pentagon's next annual budget, and their implications for Nato operations in Europe.

Nato defence ministers will at the same time seek to prepare the ground for the hard task of allocating the arms reductions being negotiated at the Conventional Forces in Europe (CFE) talks in Vienna.

Ministers from European allies will hold separate discussions in Brussels today ahead of tomorrow's meeting of the alliance's Defence Planning Committee, including the US and Canada. The meeting has to undertake an annual force review, examining performances over the last year and committing each country to set force levels for 1990.

The problem it now has to address is how to square this with the cuts in equipment and in US stationed manpower forseen in the CFE proposals.

Britisb officials said they expected a CFE agreement to be signed next autumn. But there was still too much uncertainty on the size of alliance-wide cuts to be able to foresee the implications for individual members.

The officials made clear that the UK would resist discussion of British force levels to West Germany, which are not affected by Nato's current CFE proposals.

At the same time, Mr Tom King, UK Defence Secretary, will urge European allies not to anticipate arms control by cutting their commitments.

Britain believes the US can be seen as an exceptional case because of the extent to which it built up its military in the early 1980s.

The ministers will discuss a new Nato report on the vexed issue of how Nato burdens are shared between the US and its partners. They are expected to seek clarification from Mr Cheney on how the US contribution will be affected by the prograssive spending cnts foreshadowed by him a week ago.

They are also due to receive an interim report from Gen John Galvin, Nato's supreme commander in Europe, on ways of lessening the nuisance caused by military training, especially in West Germany.

Norway may lift oil output curb

By Karen Fossli in Oslo

THE Norwegian Government is coming under growing pressure to abandon its 7.5 per cent curb on crude oil production which was imposed in February 1987 in an effort to help the Organisation for Petroleum Exporting Countries stabilise world oil prices at $18 a barrel.

Norway is Western Europe's second largest oil producer after Britain.

The 7.5 per cent production restraint removes about 120,000 barrels a day from world crude oil markets. Norway currently produces about 1.55m b/d. This could rise to 1.7m b/d next year if the curb were removed.

The former minority Labour Government, led by Mrs Gro Harlem Brundtland, implemented the oil production cut after a steep fall in world crude oil prices to below $10 a barrel in 1966. The production restraint policy is reviewed biannually and officals maintain that their policy on the issue is "flexible."

In 1986 the Government believed that by supporting the cartel oil prices would improve and help Norway'e oil-dependent economy, which suffered heavily from the fall in price of crude oil.

Oil prices have recovered to above $18 a barrel bnt Norway's economy is still struggling.

Unemployment is running at its highest level since the Second World War and state coffers could use the additional revenue arising from higher oil production.

In addition, Statoil, the Norwegian state oil company, has experienced financial difficulties for the last three years. Now that oil prices have improved, it is planning to step up investment. Improvements to the oil price have also contributed to Statoil's earnings this year.

Analysts believe that the world crude oil market is strong enough to withstand continned prodnction over Opec's self-imposed quotas. Prices have remained stable and above $18 b/d for most of this year.

Norway is expected to decide its oil production restraint policy before Christmas and officials believe that the environment this year has changed significantly enough for new thinking about the cut to prevail.

Opec ministers fail to reach production accord

By Steven Butler in Vienna

OIL MINISTERS from tha Organisation of Petrolsum Exporting Countries meeting in Vienna yesterday failed to make apparent progress toward reaching a production agreement for the coming year.

Delegates said there was resolve to reach a new agreement that would stop "rampant cheating" on quotas. But there had yet to emerge a basis for serious negotiations. Fears exist that oil prices could slump in the new year unless Opec output is reduced significantly from its present 23.5m barrels a day.

Foremost among obstacles to agreement was a demand by the United Arab Emirates to be allocated a production quota of 1.9m b/d, against its current quota of just over 1m b/d. This was considered out of the question, given the expected size of the oil market in the new year and demands by other Opec members for increased quotas.

According to one proposal which appears to have broad backing from Gulf producers, the UAE and Kuwait would be given quotas of 1.5m each, and Opec's production ceiling would rise 2m b/d to 22.5m b/d. Some Opec members are having difficulty accepting Saudi Arabia's insistence that its 24.46 per cent share of Opec's production ceiling should not fall in any quota reallocation.

Swiss vote to keep army

By William Dullforce in Geneva

SWITZERLAND decidad yesterday to keep its army, even though more than 1m of its population voted for its abolition in a referendum that attracted an unusually high turnout of more than two-thirds of the electorate.

The score, 35.6 per cent in favour of dismantling the militia army, is a remarkable triumph for Young Socialists, who raised the call for a referendum three years ago.

Their initiative was then dismissed as crazy in a country where armed neutrality has been the cornerstone of foreign policy for 170 years and where almost all adult males up to 55 keep a uniform and a weapon.

The proposal that the sentence "Switzerland has no army" be written into the federal constitution was duly rejected by 64 per cent of those voting. But Mr Kaspar Villiger, the Defence Minister, had warned that a vote of one-third to favour of the proposal would weaken Switzerland's international standing.

Greatest support for the proposal appears to have come from young voters – a factor which indicates growing objections among those who have just started their military service. Some older Swiss voted for the proposal, not because they want to do away with the army but to protest against heavy spending on sophisticated new weapons.

Japanese construction firms settle 'bid rigging' cases

By Ian Rodger in Tokyo

TWO highly publicised cases of unfair trading practices by Japanese companies, which have caused considerable embarrasament to the Japanese authorities, have been settled with unusual speed.

Last week, a group of Japanese construction companies agreed to pay the US Government Y4.7bn ($4.1m) following accusations that the group had rigged bids for carrying out Y20bn worth of work on various projects at a US naval station south of Tokyo between 1983 and 1988.

In May, Japan's fair trade commission, following an investigation, imposed penalties on 70 companies for agreeing in advance on how to bid for the contracts. The US then claimed Y5bn from 140 companies allegedly involved in the bid rigging and threatened to take them to court.

Bid rigging in the Japanese construction industry is one of the main issues raised by the US in the Structural Impediments Initiative (SII) talks aimed at removing structural barriers to balanced trade in both the US and Japan.

Under a memorandum signed by 99 Japanese construction firms and the US government, companies doing business or having assets in the US will pay the Y4.7bn by Dec 20. The remaining 41 firms did not join the agreement.

Meanwhile, the Fair Trade Commission has reprimanded Fujitsu and NEC, two leading computer manufacturers, for making absurdly low bids for computer system contracts. The reprimand follows the revelation last month that Fujitsn had won a tender for a computer system to control Hiroshima'e municipal waterworks with a Y1 bid.

Subsequent investigations revealed that NEC had won a contract in another public sector competition recently with a Y1 bid, and five other similar cases in the past two years were discovered.

The cases had aroused international interest because they showed that huge Japanese electronic companies were prepared to suffer very large losses in the short term to build market share. The Commission said the practice was prejudicial to small competitors in the industry.

Japan takes Hawaiian to its heart

By Ian Rodger in Tokyo

IN comparison with Mitsubishi Estate's purchase of New York's Rockefeller Center last month, the victory yesterday by an American in Japan's final sumo tournament of the year probably does not rank as a momentous event.

But at a time when Americans and Japanese seem to be able to find more reasons for distrusting and disliking each other, it provided an opportunity for both sides to show a little symbolic warmth for each other. And both rose to the occasion.

The victor, a 222kg (35 stone) Hawaiian by the name of Salevaa Atisanoe, burst into tears within seconds after he had thrust his final opponent out of the ring yesterday to become only the second foreigner in history, and the first in 17 years, to win a top sumo tournament.

Mr Atisanoe, who is 25, tried desperately to conceal his emotions by wiping his face repeatedly with a cloth, but it took him several minutes to compose himself. "This has been my dream, I'm really stunned," he whispered later in fluent Japanese.

Japanese sumo fans, who in the past have not exactly welcomed foreign athletes into their national game, were touched. They were profuse in their applause when Mr Atisanoe won, when he rose to collect the endless collection of cups, trophies and scrolls which goes to the winner and when he led the traditional tournament closing parade through Fukuoka.

The victory was especially sweet for Mr Atisanoe, known as Konishiki in the ring. He arrived in Japan seven years ago and rose very quickly through the ranks of professional sumo to become the first foreigner to reach the second highest level, called ozeki, two years ago.

Then, he faltered – suffering a succession of injuries and ailments and performing listlessly in the ring. Cynics wondered if, as on a couple of occasions in the past, the Japanese sumo establishment had found a way to prevent a foreigner from getting too far. Others said he had simply become bored.

If he had not won a majority of bouts in the current tournament he would have lost his ozeki status, but from the opening day two weeks ago it was clear that he had recovered his old form, often jumping up and down like a man with a third of his weight while going through the ritual preparations for his bouts.

Now he faces the prospect, if he wins another tournament, of being the first foreigner to become a yokozuna (grand champion).

How the Japanese would react to that remains to be seen. But the warm reception given Konishiki's victory yesterday is not the only sign that they are shedding their feelings about foreign athletes.

OECD REVIEW CALLS FOR TAX OVERHAUL

US urged to remove obstacles to savings

By Peter Norman, Economics Correspondent

THE Organisation for Economic Co-operation and Development has called on the US to carry out radical changes in its tax system to remove impediments to saving.

In its first review of the US economy since May 1988, the OECD said the US should mount a "two-pronged attack" in the fiscal policy area.

It said the US needed to cut its budget deficit by tightening expenditure control procedures. The US should also consider structural tax measures to improve the allocation of resources and raise private saving.

The Paris-based think tank, which is owned by the world's 24 leading industrial nations, said it foresaw growth in the US continuing at about 2.5 per cent in the second half of this year and in 1990, with inflation stabilising at around 5 per cent and only a small rise in unemployment from its current rate of around 5.2 per cent.

But it warned that there were risks "on both sides of such a prospect". The OECD said that investor confidence could decline as the economy slowed in which case the tight monetary policy needed to combat inflation could induce a recession.

On the other hand, there could be a spontaneous recovery in consumer spending that would exacerbate inflationary pressures.The OECD said US monetary policy must remain tight to contain inflation and reduce further the US current account deficit. It projects a decline in the deficit to $109bn in 1990 from $116bn in 1989 and $126.6bn last year.

However, it said exclusive reliance on monetary policy could create stresses in the US financial system because of the presence of highly leveraged companies. It also expressed concern that high levels of corporate debt might deepen any slowdown in the economy resulting from tight monetary policy. In the medium term, the sole use of monetary policy to contain inflation could deter capital spending and impede exports, the OECD believes.

The OECD also fears that in the absence of fiscal action the US could remain over-dependent on foreign saving with possible negative consequences on interest rates and interest-sensitive spending.

Although the report said the accumulation of foreign debt may be sustainable because of demand for dollar assets in foreign-held investment portfolios, financing the current account and bndget deficits may at times be difficult and so constitute a potential source of exchange rate and interest rate volatility.

The OECD criticised the present Gramm-Rudman-Hollings budget deficit reduction law. It said it makes it too easy to produce budget estimates that meet the law's targets. However, there is no means to ensure that actual deficits stay near the target during the fiscal year.

The report said opportunities to improve the structure of taxation in the US remain unexploited, singling out tax relief on owner-occupied housing. It called for a better balance between direct and indirect taxation; the integration of the personal and corporate income tax systems and an increase in gasoline taxes, which would also benefit the environment.

In an oblique manner, the OECD criticised the US for resorting earlier this year to nnilateral action against Japan, India and Brazil when it specified that they had acted as unfair traders under the "Super 301" provisions of the 1988 omnibus trade act. The report said the US should adhere to the dispute procednres of the General Agreement on Tariffs and Trade when it objected to the trade and todustrial practices of foreign countries.

In a review of US industrial performance, the OECD said a number of structural impediments stood in the way of better productivity. Tbeee included low savings and the associated high cost of capital and insufficient investment in general education, skill development and commercial research and development.

The OECD noted the current debate in the US over whether America should emulate Japanese methods to improve its industrial performance. Bnt it warned the US against any idea of targeting individual industries for special development as a "risky selective approach to industrial adjustment".

OECD FORECAST FOR THE US ECONOMY
(% changes, seasonally adjusted at annual rates)

	1988	1989	1990
GNP	4.4	3.0	2.5
Private consumption	3.4	2.4	2.0
Government consumption	0.4	2.6	1.3
Private fixed investment	5.5	3.5	5.1
residential	-0.3	-1.2	1.0
non residential	8.4	5.5	6.7
Exports:goods & services	17.6	11.4	6.0
Imports:goods & services	5.5	6.0	6.3
Current account ($bn)	-126.6	-116.0	-109.0
Consumer prices	3.9	4.6	4.7
Industrial production	5.7	3.4	2.2
Unemployment rate	5.5	5.2	5.3

Source:US Department of Commerce; OECD Projections.

El Salvador suspends relations with Nicaragua

By Tim Coone in El Salvador

EL SALVADOR yesterday suspended diplomatic and commercial relations with Nicaragua following the discovery of an arms shipment of 24 surface-to-air missiles on a light aircraft which allegedly came from Nicaragua.

President Alfredo Cristiani, the Salvadorean president, said: "This is a dangerous escalation of the conflict," and he has called for the next meeting of the Central American presidents to be moved from Nicaragua. "El Salvador will not go at the invitation of Nicaragua," he said.

El Salvador is also calling for emergency meetings of the UN General Assembly and the Organisation of American States.

The crash of the light aircraft has provided the first firm evidence that SAMs may now be in the hands of the guerrillas and according to a senior El Salvadorian army officer "this could change the course of the war."

The missiles use infrared tracking devices to lock on to the exhaust emissions of aircraft of helicopters. The El Salvadorian air force is not thought to have effectiva counter-measures equipment fitted to its aircraft.

The first phase of a nationwide guerrilla offensive launched 15 days ago, was eventually beaten back with the extensive use by the armed forces of aircraft and helicopter gunships. They are widely thought to be regrouping and preparing for another, possibly even heavier, offensive.

The arrival on the scene of SAM missiles for the first time in the 10-year-old civil war, would confirm the view that the guerrillas are aiming to seize and hold an important piece of territory in El Salvador.

The eastern part of the country, focusing on the city of San Miguel, is considered a highly probable target.

The aircraft carrying the 24 missiles was a twin-engined Cessna with its registration painted out. Twenty three of the missiles were Soviet-made SAM-7s, of which Nicaragua is thought to have several hundred, while the other was a US-made "Red-Eye." The US Government has supplied such missiles to the Nicaraguan Contras, a number of which have been captured by the Nicaraguan army.

EASTERN EUROPE

The party of the working class runs out of excuses

Czechoslovakia's Communist Party is falling apart fast as the world of pre-post-communism arrives, reports **John Lloyd**

THE television shows a man standing on a balcony above a factory yard in which a few hundred workers await his words. The camera is in close showing his eyes flickering, his head nervously jerking to and fro.

Finally, he lunges towards the microphone, and begins an address: he calls on the workers to be with the Communist Party as it is with them; he promises changes in its leadership (to ironic applause); and he berates the students who are leading the strikes and the tumultuous demonstrations. Then he says: "I don't care what kind of country it is, Third World, capitalist or socialist – it doesn't allow 15-year-old children to tell it what to do".

The camera swings down into the well of the yard. There is scattered clapping. Then one man begins to chant "We're not children!" In seconds it seems the whole yard has got it – "We're not children, we're not children!"

The camera swings up again to the speaker. It seems the lens is almost touching his sweaty face. He makes another stab at the microphone. "Of course I didn't mean you were 15-year-olds." Too late: the chanting has switched to "Resign! Resign! Resign!" He backs off the microphone: the camera shutter closes.

This three-minute scene has become the best-known piece of television in Prague. It is a piece of symbolism which in itself unites and extends the opposition. The Humiliation of Miroslav Stepan, Communist Party First Secretary of Prague, by the workers of the CKD engineering plant is the TV equivalent of the medieval religious painting which portrays a transcendence... or a martyr, and which teaches a lesson.

The Humiliation carried a clutch of lessons. The most basic and shocking of them was that the party of the working class no longer has an alibi.

For the past week, its leadership has grasped at the hope that the daily manifestations really were confined to the intelligentsia, young and old, and that the introverted torpor which had settled on Czech society for the past two decades would reassert itself on the firm rock of proletarian indifference.

No such luck. All over the weekend came news that enterprise after enterprise had pledged to join the two-hour strike planned for mid-day today. Workers, footballers and pop stars stand beside the intellectuals on the freezing podia at demonstrations. Ten thousand workers from CKD alone were in Wenceslas Square on Friday and more in Letenske Field on Saturday and yesterday. Bohemian miners, chemical workers from Bratislava, Skoda engineers, Prague students, the jealousies and contempts among them are dissolving, it seems, for as long as it takes to slough off their ruling class.

The party is falling apart very fast. The Prague Communists held a conference yesterday and Saturday and they, too, gave Mr Stepan a hard time, demanding his resignation (it came later yesterday) and in some cases, that of the entire new party praesidium, only a day old; demanding, too, a special party congress whose delegates would be freely chosen from the base so that a new central committee could be ushered in.

Mr Ladislav Urbanek, the new party boss who follows Poland's Mieczyslaw Rakowski, Hungary's Resző Nyers and East Germany's Egon Krenz into the nightmare world of pre-post-communism, appeared on TV late last night to put the now familiar ashes on his head: "We were far from the people... we made many mistakes... we allowed corruption, lack of ability and idleness in our ranks." This act, "Doing The Gorbachev", has never found an imitator capable of the style of the original. Presented everywhere as a strategy for renewal, it is actually the death rattle of the one-party state.

The communists are, like the East Germans, moving swiftly. Friday night and early Saturday morning saw the replacement of Mr Miros Jakes, who replaced Mr Gustav Husak (now state president) as party leader 23 months ago, with Mr Karel Urbanek, a 48-year-old party functionary who has been on the Federal Central Committee for only three years. Other hard liners like Mr Jan Fojetk, the ideology chief, also left: but this was no praesidium of reformers, not with Mr Stepan or Mr Miroslav Zahadio, the trade union boss, solidly inside it.

Already, the Communist Party has – ambiguously – talked of free elections, a new constitution and new laws on assembly and the press. Article 4 of the present constitution, which enshrines the party leadership role, is now "likely" to go.

The party has grabbed at the chance of round-table talks: Mr Urbanek has promised government posts for non-party and other-party people; and an investigation has been mounted into the beatings which the special internal ministry forces meted out to the demonstrators on November 19. Half a dozen political prisoners – including Mr Rudolf Zeman, Mr Jiri Ruml, Mr Petr Uhl, and Mr Jan Carnogursky – were released at the weekend; some 20 more remain inside and their release is on the top of the Civic Forum's agenda.

But the fossilised Central Committee, inheritor of 21 years of acting as Soviet placemen, 21 years of screening out all reform and reformers, 21 years of filling every official post from village school headmaster to prime minister with communists only, can barely respond.

Only the gathering rebellion among over 1m members and the continuing occupation of the streets (at six degrees below) forces them to lurch from concession to re-arrangement. Last night, both the Slovak and the Federal Central Committees were again in session, cutting throats, and hoping that the bodies they will throw out to the public will get them indoors again.

The opposition remains more or less united, still on the high curve of the popular wave. Mr Vaclav Havel led the talks with the government yesterday; his hoarse but increasingly self-confident voice evokes the warmest response at the demonstrations. "After 40 years of totalitarianism, the people have started to think and act for themselves," he cried yesterday.

He has rejected all talk of future personal power. But even if he does not return to a writer's solitude, he will remain the moral centre of the drive to democracy.

Mr Alexander Dubcek, who has thrown his lot in with the initial Civic Forum, would want power: he is being spoken of among the widening circles of his supporters as a future president and it may be in his grasp. His speech yesterday, following Prime Minister Ladislav Adamec's, was the strongest since he first appeared on Friday: demanding apologies for the 1968 invasion from the Soviet, East German and Bulgarian leaderships – as well as from the Czech party – and scorning the changes in the leadership.

Gradually emerging are the bones of the society and the economy which this vast people's movement may be responsible for ushering in. It will be pluralistic, and it may well have a market economy.

Dr Valtr Komarek, director of the Prognostics Institute, is only one of a number of economists now working on plans which the Civic Forum will make its own and which Mr Adamec is likely to welcome. Another group, under the leadership of Professor Vladimir Karlec of the Czech Academy of Sciences, is about to issue a document for the Civic Forum setting out a plan for the transformation of the rigid economy to a market system, opening out to both domestic entrepreneurs and foreign investment.

Absent – and significantly absent – has been any discussion of the Soviet Union. It is simply accepted, now, that there will be no interference. Poland and Hungary had to worry about how far to go. The Czech movement sees tha Czech party as its only opponent: its enemy is within.

What a coming of age! Prague has woken, after 21 years, to roaring festivals of improvisation, free speech and mass rejoicing. It is no cliché to say that the people are both engaged in the political events and polite, even affectionate toward each other.

The wit is like lightning: when a Hungarian independent trade unionist apologised yesterday to the demonstration for his poor Czech, an instant chant came back: "Not as bad as Jakes". More than anywhere else in Eastern Europe, this movement has been led by men and women, mainly young, whose youthful idealism and energy are omnipresent and so far omnipotent.

Jaroslav Hutka, an exiled singer who crossed back from West Germany at the weekend, sang to the Letenske Field rally yesterday: "Peace and truth are the highest thing in life". A big, hairy man, he looked himself like a homage to 1968, right down to the gentle beam on his hairy face.

Opposite Mr Adamec at the first round of the talks yesterday were a priest, a playwright, a pop singer, an actor and a miner. All of this makes some of the powers-that-still-be apoplectic: General Vladimir Tibor, an army commander in eastern Slovakia, exploded on TV yesterday that "it is an affront to the dignity of Czechoslovakia that it should be represented by a long-haired man with a guitar".

Yet soon after, a Lieutenant Pinc stepped up to the same microphone before the half million-or-more people and confessed he was a member of the very internal ministry special group which had clubbed demonstrators nine days ago - and begged forgiveness. "The Civic Forum has held out its hand to me, and we want to accept it. Wa are deeply sorry that our leaders put us against the people."

Czech Premier Ladislav Adamec at a meeting of opponents of the government in Prague yesterday

● SOVIET REACTION

Papers give subdued reports of events

By Quentin Peel in Moscow

THE speed of events in Eastern Europe, above all in the conservative Communist states of Czechoslovakia and East Germany, has for once left Soviet commentators almost speechless.

The only consistent line from the Soviet authorities has been to stress that their Socialist allies in Eastern Europe must sort out their own domestic solutions, without any guidance from Moscow.

Apart from that, Soviet officials continue to back reform against stagnation and dialogue against confrontation. Given Mr Mikhail Gorbachev's own problems in sorting out the Soviet economy and controlling an increasingly anarchic democratisation, he clearly has no clearer prescriptions to offer.

However, the most significant change for the Soviet public has been that the absence of a clear party line has resulted, not in a news blackout, but rather in relatively straight, if subduad, reporting of the tumultuous events in Prague and East Berlin.

Television, above all, has given a clear glimpse of the huge demonstrations in both countries, although the printed press has continued to give the changes only modest prominence.

On Ssturday, only one national newspaper – the trade union publication, Trud – actually published the events in Prague on the front page, alongside another story from East Berlin.

The resignation of Milos Jakes, the Czechoslovak Communist Party leader, was disposed of in just one paragraph with the attention focused on the new party leadership.

However, the television coverage, and the Soviet correspondents' reports from Prague, have recorded the huge demonstrations and widespread workers' support for today's planned strike.

Soviet film of the demonstrations appears to have been bought almost entirely from Western television stations, in contrast to its own footage which was broadcast from East Berlin the week before. One suspicion of Moscow observers is that Soviet TV crews have been too nervous to confront the Czech demonstrators, given the memories of the Soviet invasion in 1968.

The apparent sympathy for the demonstrators has been shown in such establishment organs as Pravda – in a despatch from its own correspondent – Izvestia, the Government newspaper, and even the relatively conservative Sovietskaya Rossiya.

Tha official Soviet news agency, Tass, reported that last Thursday's mass rally in Wenceslas Square numbered 500,000 – well in excess of Western estimates. Sovietskaya Rossiya admitted that the Czech Government's previous attempts at reform had been "discredited", and referred to "historic events" taking place in Wenceslas Square.

● CZECHOSLOVAKIA'S PRIME MINISTER

Adamec finds a cautious home among reformers

By Judy Dempsey and John Lloyd in Prague

MR LADISLAV ADAMEC, the Prima Minister of Czechoslovakia who refused to join the new politburo on Friday night, saying that he could not support such a team, has been practically disowned by the party leadership. But he is now slowly finding a new home among the Civic Forum.

They make strange bedfellows. While the leadership of the Civic Forum is composed of intellectuals and writers such as Mr Vaclav Havel, Mr Adamec's background is very much anchored in the party and government.

Born in 1926 in south Moravia, once the heart of Czech industry, Mr Adamec made his way slowly up through the party ranks. He seems to have kept his head fairly low during the Prague Spring movement, for which he was rewarded in 1970 by being appointed deputy prime minister of the Czech Lands region, a post he held for 18 years. In 1987, he was elected prime minister of the region and the following year he was made prime minister of Czechoslovakia. His critics at the time said he neither had the competence nor the power base to push through any of the much-needed economic reforms which his predecessor, Mr Lubomir Strougal, has unsuccessfully tried to do.

However, over the past year Mr Adamec had mada it known at several party meetings that no economic reform could drag the country out of its appalling state unless political reforms were introduced.

He is on a knife edge: when be called, in the speech he was unexpectedly invited to make by Civic Forum at yesterday's demonstration, for a period of calm, and suggested that today's strike might be two minutes rather than two hours. he lost his audience and support turned to cries of "Resign". He is on tight probation. "He is the best they have," says Father Vaclav Maly, the young priest who has emerged as the Civic Forum's front man and an admiring associate of Vaclav Havel. "He can play a role in the transition."

His supporters say that he tried to resign as early as June, an offer which was repeated late last month.

But even then, Mr Adamec was reluctant even politely to refer to the opposition in interviews.

But Mr Adamec, catapulted into the limelight, cheered by the crowds and now the only Czechoslovak politician who is willing to talk to the Civic Forum, will probably be ane of the few survivors of the present party and government leadership.

As one of the Civic Forum spokesmen has said, Mr Adamec "is the only politician who has lost his arrogance".

● SOVIET SOCIALISM

Gorbachev backs continuing monopoly for party

By Quentin Peel in Moscow

PRESIDENT Mikhail Gorbachav yesterday issued a resounding call for the Communist Party to maintain its monopoly rule in a pluralistic Soviet society, as part of an attempt to present a new vision of a future democratic socialism.

Yet he did not rule out an eventual move away from a one-party state, promising that the party itself would work to promote a pluralism of opinions, and still greater glasnost – openness – "in the interests of democracy".

His refusal to countenance any early move to a multi-party system of democracy came as the leaders of the most important opposition group within the country's new parliament voted to demand a debate on Article Six of the Soviet constitution – which enshrines the "leading role" of the Communist Party – next month.

The Inter-regional group, headed by prominent radicals such as Mr Boris Yeltsin, Dr Andrei Sakharov, Professor Yuri Afanasyev and Dr Gavriil Popov, and supported by 400 to 500 of the 2,250 members of the Congress of People's Deputies, is reflecting a spreading demand for the role of the Communist Party to be questioned. It has been one of the demands of the striking coal miners of Vorkuta, in the Arctic Circle, as well as of radical demonstrators marching through Moscow in an alternative Revolution Day demonstration on November 7.

Mr Gorbachev's alternative view, published as a vision of the future of socialism over the first 2¼ pages of Pravda, the leading Communist Party newspaper, yesterday, coincides with growing signs of panic within the ranks of the ruling party.

The Soviet leader's statement of faith can therefore be seen not just as an attempt to rebut the party's external critics, but also as an urgent effort to reassure the party faithful that its position is not threatened by the exploding and increasingly anarchic democratic debate in the country.

Yet Mr Gorbachev still refused to commit himself to any rigid prescription of the future face of socialism.

He denounced "populist demagoguery" and "nationalist or chauvinist trends", saying: "At the present complex stage, the interests of the consolidation of society, and the concentration of all its sound forces on the accomplishment of the difficult tasks of perestroika, prompt the advisability of keeping the one-party system."

Sudden pnblication of Mr Gorbachev's vision of the future of socialism, in the newspaper now edited by his close political adviser, Mr Ivan Frolov, follows closely on a televised party rally in Leningrad last week where a string of conservative speakers demanded that their leaders be more accountable to the rank and file.

"Some people reproach us that we have no clear-cut detailed plan to realise the concept of perestroika," Mr Gorbachev said.

"I believe that we would have made a serious theoretical error if we tried to impose ready-made schemes upon society, or to force contemporary realities into a Procrustean bed.

"This was the characteristic feature of Stalinism, with which we have parted ways."

"Democracy and freedom are the great values of human civilisation which we follow, and which we are filling with socialist content," he said. "Wa are for real democracy. A law-based state needs to have principles." It required a "sharp division" between the executive and the legislature, and an independent court system.

In this the role of the party should no longer be executive or administrative, but the "ideological, moral and political vanguard of the people".

He admitted that the party had failed to restructure itself enough. "Unfortunately, so far perestroika in the party is slower than in society as a whole, which creates certain difficulties in securing its vanguard role."

● REUNIFICATION

Weizsäcker proposed to lead unified Germany

By David Marsh in Bonn

THE CHAIRMAN of one of East Germany's new opposition parties has suggested making Mr Richard von Weizsäcker, the West German president, head of state of a united Germany.

In a sign of how the question of Germany unity is coming to the fore in botb East and West Germany, Mr Wolfgeng Schnur, head of the East German Democratic Awakening Party, said a combined head of state would be a "belpful" stepping stone towards "unity of the Fatberland".

Mr Schnur, wbo has been visiting tbe Federal Republic for talks with top politicians bere, said Mr von Weizsäcker would be acceptable to East Germans because of the way he had carried out his five years as West German president. "I bave absolutely no doubt that Richard von Weizsäcker would also be acceptable for us as head of state," he told the Sunday newspaper Bild am Sonntag.

Tbe Socialist Unity Party (SED), the East German communist party, says German unity is not on the agenda at the moment, as it would damage stability in Europe. However, Mr Egon Krenz, the East German leader, told the Financial Times on Friday that a confederation would be an eventual possibility as part of a future "Common European House".

The East German Christian Democratic Union has already come out in favour of a future confederation between the two states. The fledgling East German Social Democratic Party, one of the previously banned opnosition groupings whicb will be contesting free elections in East Germany, has also given support to the idea.

Meanwhile, in the Federal Republic, bickering between the main parties over reunification continued at the weekend. Mr Oskar Lafontaine, the maverick vice-chairman of the West German Social Democrats, has attracted the wrath of the right by declaring that West Germany could no longer stick to the concept of a single citizenship for all Germans.

● EAST GERMAN PARTY

Poll of no confidence in Krenz

By Leslie Colitt in Berlin

THE East German Socialist Unity (Communist) Party has suffered a stunning setback in an official poll showing that only 19 per cent of adults would vote for the party if elections were held now.

An overwhelming 67 per cent majority of the East Germans pollad said they approved of the new opposition groups fielding candidates in forthcoming elections. Mr Egon Krenz, the new party leader, was backed by a mere 9.6 per cent of citizens polled by the Central Committee of the Socialist Unity Party (SED). But his chief rival, Mr Hans Modrow, the reform-minded Prime Minister, got 41.9 per cent.

The opinion poll, published in the party newspaper Neues Deutschland, was bound to influence delegates now being elected to the emergency party congress in mid-Decemher. The congress will elect a new central committee and could oust Mr Krenz if he is seen to a liability for the badly-weakened party.

The poll revealed that 41.9 per cent of adults supported neither the SED nor the non-Communist parties allied with it. Of the 844 adults questioned, 31.5 per cent said they would be in favour of a "renewed" SED. The largest opposition group, New Forum, was said to have won 9 per cent, and the Liberal Democratic Party, which has distanced itself the furthest from the SED, 7.9 per cent. The Liberal leader, Mr Manfred Gerlach, polled 4.7 per cent, only four points behind Mr Krenz.

In an interview with the Financial Times last Friday, Mr Krenz admitted that he would not win any popularity polls but would survive the party congress. Elections would not take place until the end of next year at the earliest, he noted. It was apparent that the East German leader hoped in the meantime to shed his hard-line image.

Only 30 per cent of East Germans in the poll were hopeful about developments in the past four weeks – since Mr Krenz succeeded Mr Erich Honecker – compared with 47 per cent 10 days before.

More than two-thirds (previously 47 per cent) had fears as well as hopes in connection with the opening of the borders to the West.

East Germany introduced strict customs measures last Friday to curb the smuggling of subsidised consumer goods to the West and to Poland. Such goods could only be purchased by East Germans showing their identity papers in shops.

Another blow to the hard-pressed party came in a Neues Deutschland report that 200,000 members had resigned since the end of September, 70 per cent of them workers. Mr Krenz said only on Friday that between 50,000 and 60,000 members had left the party, which had 2.3m members.

The small Christian Democratic Party in East Germany surprised many East Germans by noting that it was in favour of a confederation between the two German states "in which the unity of the German nation is realised".

The confederation should take place within a Common European House, the East German CDU noted. Mr Krenz said a confederation could take place only after Nato and the Warsaw Pact were dissolved.

● MAZOWIECKI IN SOVIET UNION

Polish Premier's visit recalls Katyn massacre

By Christopher Bobinski in Katyn

MR Tadeusz Mazowiecki, Poland's premier, yesterday attended a church service at Katyn, the site of a wartime massacre of more than 4,000 Polish officers interned in 1939, as part of his four-day visit to the Soviet Union.

The service was taken by Father Kornel Hanke Ligowski, a priest from Cracow and a member of the official Polish government delegation, in the wood where the men died.

They were killed in the spring of 1940, each by a single shot in the back of the head. Their mass grave was found by the Germans in 1943, and ever since the Soviets have refused to accept responsibility for the crime, even though it is now no longer a taboo subject in either the Polish or the Soviet press.

Yesterday's ceremony underlines the huge importance to Poland of finally clarifying responsibility for the massacre, and belated recognition by the Soviet authorities of its import, even if an admission of guilt has yet to be made.

On Friday, during his meeting with Mr Mikhail Gorbachev, Mr Mazowiecki insisted that normal relations could not be established between Poles and the Soviet Union until the historical record was set straight.

He received no more than an assurance from the Soviet leader that the question would once again be considered.

The economic talks held during the visit brought little progress, apart from promises to consider a Polish suggestion that gas deliveries be increased by 25 per cent over the 40bn cubic metres figures promised for the 1991-1995 period.

The Poles have, however, managed to win a waiver of interest payments due next year on their $1.5bn debt in the Soviet Union, enabling them to lower deliveries by the requisite amount in 1990.

Discussion on what to do about the Rbls5bn (£8bn) soft-currency debt Poland owes Moscow, which the Poles want to repay after 1995, has been postponed until decisions are made on how to pay for trade in the next five-year period.

● NEWS IN BRIEF

Ukrainians call for legalisation of church

MORE than 150,000 people carrying portraits of Pope John Paul marched through the west Ukrainian city of Lvov yesterday demanding the legalisation of the Ukrainian Catholic Church, Reuter reports from Moscow.

The protest took place only days before President Mikhail Gorbachev goes to Rome, where he will meet the Pope.

Ukrainian Catholics hope the meeting will result in recognition of their church, banned by Josef Stalin in 1946.

"It was just a sea of people," Lvov human rights activist Bogdan Gorin said.

The march followed a two-and-a-half-hour outdoor prayer service organised by the underground church, some of whose members spent years in prison for their beliefs.

Dassault deal with Estonia

Estonia-based Sberbank, the Soviet Union's largest savings and credit bank, is to buy FFr1bn (£103m) of computers, banking software and training from Electronique Serge Dassault (ESD), the electronics arm of the French aircraft maker, William Dawkins writes in Paris.

The contract is to computerise Sberbank's head office in Tartu, Estonia's second city, and eight regional offices in Estonia, Lithuania and Latvia. ESD will also instal electronic payments terminals in the largest businesses in Tartu.

This is the latest Soviet step towards acquiring Western banking expertise after the signature last May of a joint venture in Moscow, among three Soviet and five European banks.

They include France's Crédit Lyonnais, which is also head of a French consortium, set up in July, of which ESD is a member, to encourage joint ventures in the Soviet Union. While the Soviet partners were keen at the time to set up a joint venture in simple wholesale banking, observers said they were also eager to acquire Western banking technology.

Leipzig steam plant order

East Germany announced at the weekend a DM225m (£78m) order for two West German companies to build a steam generation plant for modernising the Buna chemical works near Leipzig, David Marsh reports from Bonn.

The order, for the plant construction company's Lentjes and Lurgi – a subsidiary of metal concern Metallgesellschaft – is the centrepiece of a new power station being built to improve production, and environmental protection at the Buna works.

The plant will involve modern coal-firing technology to dampen pollution through sulphur dioxide, nitrogen oxides and dust. The contract is a landmark in East-West German co-operation to improve ecology in the southern part of East Germany, suffering under the heavy use of polluting lignite.

Optimism on co-operation

Mr Helmut Haussmann, the West German Economics Minister, said yesterday that the chances for economic co-operation between the two Germanies were much better than generally assumed, even without big changes in the East German political and economic system, Andrew Fisher reports from Frankfurt.

After talking with West German industrialists, he said in Bonn that changes in East Germany's investment laws would release potential economic benefits of a size so far underestimated in East Berlin.

West German industrialists and bankers wanted, above all, an agreement under which investments would be safeguarded. This would allow joint ventures, not at present allowed in East Germany, to be concluded.

Bulgarian secret police unit to go

Bulgaria's new Communist leaders, anxious to show they are reformers, say they will disband a feared secret police unit used to spy on dissidents, Reuter reports from Vienna.

The Communist Party newspaper Rabotnichesko Delo said yesterday the Interior Ministry would abolish its "sixth department", which had been used to "lead the struggle against ideological diversion".

Members of the growing opposition movement said the department was used by ousted hard-line party boss Todor Zhivkov to spy on dissidents, many of whom were harassed, imprisoned or expelled from Bulgaria for daring even to discuss reform.

OVERSEAS NEWS

Brussels faces uphill struggle to remove takeover barriers

Even if it brings out its heaviest rollers, the Commission is not going to be able to level the field, Lucy Kellaway reports

LAST WEEK, the UK published a formidable list of obstacles to takeovers in Europe, and the European Commission replied with an equally persuasive account of what it proposes to do about them. It should all have been satisfactory. But on closer reading of the British report, prepared for the Government by Coopers and Lybrand, the Commission would seem to face an impossible task. Even if it brings out its heaviest rollers, it is not going to be able to level the takeover playing field.

In 1988, three-quarters of all companies taken over in Europe were British. In half the member states there were virtually no takeovers at all. Out of 26 hostile takeovers, 23 were in the UK. The three others – in France, Italy and the Netherlands – were all special cases. The reason for this imbalance is less that other countries allow widespread use of poison pills, have inequitable share voting structures and boards of directors near-impossible to fire, or indulge in other practices the EC could legislate away.

Instead, it seems many countries have not heard of all these clever devices to protect their companies. The main reason for the absence of takeovers lies in the lack of development of their markets, in corporate attitudes, and, above all, in the close control families or groups connected with the management exercise over the companies, making a hostile takeover impossible. In Italy, only seven of the 200 listed companies have over half their shares in public hands; of these, only two are free of tight family control. The position is similar in most other countries, except West Germany and the Netherlands, and perhaps not surprisingly, in these two countries the type of technical barriers the Commission is out to topple, are most numerous.

The report makes clear that were the market culture on the Continent to become more open, such barriers would almost certainly start to multiply – making it important for the Commission to start setting the rules clearly now. Underlying the difference between the Anglo-Saxon and the other market is a fundamental one of business ethics, likely to outlive any change in legislation. Only in the UK is management fully accountable to its shareholders: more or less everywhere else, other things – such as employees' interests and longer-term business targets – are more important. In the UK, the principle of maximising shareholder value is paramount: anything that protects a management against

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predators is simply unethical. In other countries, the opposite is the case – the idea of a predator buying a company without its consent is considered almost immoral. This does not mean Brussels is wasting its time in trying to get rid of the artificial barriers to takeovers. But it may mean that progress with parts of the legislation will be slow.

The Coopers report carefully catalogues the many technical obstacles that potential bidders may face on the Continent. These start with a general absence of up-to-date and reliable information on the company's finances and on the identity of its shareholders. Once the target has been identified, a bidder may be confronted by two-tier board structures (making it difficult for shareholders to sack the board); powers to issue non-voting or priority shares; limits to voting rights; and powers of depositories to vote on behalf of shareholders. Meanwhile, the power of trade unions, and the interventionist policies of governments – France is singled out for particularly bad behaviour on this score – may also make it difficult for foreign companies to mount successful takeovers.

The report also questions the conventional view that barriers only exist to hostile takeovers. If a management knows that it is under no risk of being bypassed by a hostile bid put straight to shareholders, it will be more inclined to refuse to co-operate with a friendly bidder. Brussels has made it clear that much needs to be done. There is little EC legislation in place on takeovers, but draft rules covering the most blatantly unfair practices are slowly making their way through the machine. The Commission has not only promised to speed this up, but to introduce new measures. It has commissioned Booz Allen to prepare a report giving advice on the way forward, but has sent it back for redrafting. By spring next year it will be ready to put a number of suggestions to member states.

At the moment, there are a wide series of company directives designed to improve company disclosure, to define the duties of mangements and to protect the rights of shareholders. The two most important drafts deal with the structure, the power and the obligations of public companies, and with the conduct of takeovers.

EC ACQUISITIONS IN 1988

Country	Value £m	Value %	Number	Number %	Avg value £m
Belgium	160.5	0.3	19	0.9	8.5
Denmark	260.5	0.6	12	0.6	21.7
Irish Rep	379.3	0.8	21	1.0	18.1
France	5,079.9	10.5	90	4.5	56.4
WG	1,987.9	4.1	49	2.4	40.6
Italy	2,337.1	4.8	35	1.7	66.8
Luxembourg	6.6		2	0.1	3.3
Netherlands	1,522.4	3.1	46	2.3	33.1
Portugal	6.3		1	0.1	6.3
Spain	1,355.3	2.8	29	1.4	46.7
UK	35,378.8	73.0	1,724	85.0	20.5
Total	48,474.6	100.0	2,028	100.0	23.9

Table shows all acquisitions for which a value was given

Source: Acquisitions Monthly

The takeover directive, which lays down such things as bid timetables, is making comparatively speedy progress. Some loose ends remain to be tidied up – the UK is worried that it lacks the flexibility in application granted to the Takeover Panel, while France is unhappy about the provisions that the bidder must bid for all the shares rather than 66 per cent – but there seems a good chance that despite these problems, it will be accepted by everyone next year. More difficult is the Fifth Directive, which enshrines the principle of "one share one vote" and establishes such things as the duties of directors and rights of minority shareholders. This piece of legislation has stuck on the question of worker participation, which is also included. The UK is not prepared to agree to anything thet would make any sort of employee participation compulsory; West Germany is holding out for a compulsory system based on its own.

The Commission has pledged to hurry this legislation through; it is possible the deadlock might be lifted if the question of employee participation – also being discussed in connection with the Social Charter and the European company statute – could be shifted elsewhere. It is also likely to put forward measures on some of the following: proxy voting; companies buying in their own shares without shareholder consent when faced with a hostile bid; making sure that boards can be sacked by a simple mejority of shareholders; limiting webs of cross-shareholdings in subsidiaries.

Many of these would involve revolutionary changes in countries like the Netherlands and West Germany, where barriers of this type are highest – and therefore some powerful opposition might be expected. Commissioners are meant to be independent of pressures at home, but it is encouraging that the German commissioner, Mr Martin Bangemann, promised last week to knock down takeover barriers. The problem is not just getting the right measures adopted, but persuading member statee to abide by them. The Coopers report regards implementation as the biggest problem. Once the directive is passed, member states must make sure it is adhered to. If they did not regard it as necessary, they msy not implement it rigorously. Satisfactory implementation may come back to the different culture in different markets. The EC may not be able to do much about this, but the UK Government is not desparing. By broadcasting the advantages of the Anglo-Saxon way, it hopes businesses and shareholders from Antwerp to Athens will see the light.

Lambsdorff urges EMS realignment

MR Otto Lambsdorff, leader of the Free Democratic Party (FDP), a partner in West Germany's ruling coalition, has added his voice to the muted warning sounded by the Bundesbank about the risks of delaying a realignment within the European Monetary System (EMS) for too long. Andrew Fisher reports from Frankfurt.

He called for an urgent review of the EMS, in which the last realignment was nearly three years ago. Since then, as the Bundesbank pointed out in its latest monthly report, inflation differences and trade imbalances between members have increased considerably. Recent support for a realignment has come from German bankers and industrialists.

Mr Lambsdorff, a former Economics Minister, said exchange rates had been set firm in the EMS as a result of political decisions. But "divergences in the development of prices, in budget policies, and in external balances are increasing again".

The EMS had been conceived as a system of fixed but adjustable exchange rates, he noted. The Bundesbank made clear it disapproved of timely realignment being held up for political reasons.

GM begins supplying Korean engines to W Europe operations

By Kevin Done, Motor Industry Correspondent

GENERAL Motors has begun supplying engines from South Korea to its operations in West Europe for the first time, in order to alleviate production bottlenecks and lack of capacity at its European engine plants.

The company is expected to ship around 3,000 1.6 litre petrol engines from South Korea to its Bochum engine plant in West Germany in the last two months of this year, with deliveries rising to 25,000-30,000 units in 1990.

GM is also expected to decide in the next few weeks on the location of a new £140m engine plant, which it is proposing to build either in the UK or in West Germany. A final decision could be made before the end of the year.

The Korean engines are being supplied by Daewoo Motor, a 50/50 joint venture between GM and Daewoo, a leading Korean heavy industry group. The engines will be fitted in Europe in some versions of the Opel Kadett/Vauxhall Astra small family car.

The Daewoo engines produced under licence were designed and engineered by Opel, GM'a West German subsidiary. They are currently fitted to the Pontiac LeMans, a version of the Opel Kadett/Vauxhall Astra assembled in South Korea for sale in the US, and in the Daewoo LeMans for the domestic Korean market.

GM's move to supply engines from South Korea to Europe follows earlier steps to deliver engines from both Japan and Australia to its West European operations.

It currently ships around 115,000 1.8 and 2.0 litre petrol engines from General Motors-Holden's, its Australian subsidiary and some 48,000 1.5 and 1.7 litre diesel and turbo diesel engines from Isuzu, its 41.6 per cent-owned Japanese associate company.

The US group will produce 1.5-1.6m cars and light commercial vehicles in Europe this year at its assembly plants in West Germany, Spain, the UK, Belgium and Portugal. It is currently seeking to raise production levels at several of its car assembly plants in the face of record sales.

GM (Opel and Vauxhall) is the fastest growing of the "big six" volume car makers in Europe this year – and many of its European assembly and components plants are running at full capacity.

The two candidates for the group's new European engine plant are Ellesmere Port, Merseyside, in the UK, where GM currently assembles the Vauxhall Astra, and Kaiserslautern in West Germany, where GM builds engines, gearboxes and other components.

GM has refused to confirm details of the project, but it is understood that the company is planning to begin production of a new range of 2.5 and 3.0 litre V6 engines in late 1992, with production rising to 35,000-40,000 units a year. The project will create around 400 jobs.

The V6 engine range is aimed at strengthening GM's presence in the top end of the European executive car market.

Vauxhall, GM's UK subsidiary is still seeking final agreement from its Merseyside workforce on far-reaching labour reforms at the Ellesmere Port plant, as a pre-condition for attracting the engine plant investment to the UK.

GM, which currently builds engines at four locations in West Europe – Bochum, Kaiserslautern and Russelsheim in West Germany and Vienna – abandoned its last car engine assembly operation in the UK at Ellesmere Port in 1984 as part of the retrenchment of its Vauxhall and Bedford operations.

With the recovery of the UK motor industry in the last couple of years, GM Europe has begun to source an increasing volume of components from the UK, however. It has re-allocated more than £450m of components purchases to British suppliers during the past three years.

President Roh in UK today

PRESIDENT Roh Tae Woo of South Korea arrives in Britain today for an official visit which will concentrate on trade and business issues, with Korean barriers to British whisky imports certain to be raised, Robin Pauley, Asia Editor, writes. Seventeen leading South Korean businessmen have come to London to meet British businessmen when the President addresses the Confederation of British Industry on Wednesday.

South Korea wants to increase its investment in Europe before 1992, and is chasing more European investment in South Korean high-technology industries. President Roh will attend a GEC-Marconi display at Imperial College in London on Thursday showing the state of development in joint research projects with South Korea on an advanced robot and a telecommunications satellite. But it is in his meetings with Mrs Margaret Thatcher, the Prime Minister, and Mr Nicholas Ridley, Trade and Industry Minister, that thornier trade matters, including the whisky issue, will arise.

WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1985 = 100)

					% change over previous year
	Oct.'89	Sept.'89	Aug.'89	Oct.'88	
US	114.3	115.1	115.1	112.7	+1.4
	Sept.'89	Aug.'89	July'89	Sept.'88	
W. Germany	111.7	112.4	112.2	108.0	+3.4
UK	110.5	111.4	109.8	110.9	-0.4
Japan	119.2	121.6	118.1	114.8	+3.8
	Aug.'89	July '89	June '89	Aug.'88	
France	111.8	111.5	113.1	108.1	+3.4
Italy	120.7	117.3	117.0	118.2	+2.1
	July '89	June '89	May'89	July '88	
Netherlands	106.3	104.7	105.9	104.6	+1.6

Source: (except US) Eurostat

UK NEWS

Pound faces further pressure on foreign exchanges

Major firm on use of interest rates

By Patrick Harverson, Economics Staff

THE POUND is likely to come under further pressure on the foreign exchanges this week in spite of yesterday's assurance by Mr John Major, the Chancellor of the Exchequer, that he was ready to raise bank base rates further in the fight against inflation.

Mr Major, speaking yesterday on the Channel 4 programme *Answering Back*, said: "If it is necessary in the wider judgment to use interest rates by raising them again to bear down on inflation, then of course I will do that. Inflation is the first priority and we must seek to bring that down."

It has been the markets' lack of confidence in the Government's apparent willingness to take the politically unpopular course of increasing rates again, allied to pessimism about the economic outlook, that has undermined the pound.

Last week sterling fell 7 pfennigs against a strong D-Mark, to DM2.82, its lowest level for more than 2½ years. Analysts in the City of London have warned that with little fundamental support for the pound, the sterling/D-Mark rate could drop to DM2.70 by the end of the year if base rates remain at 15 per cent.

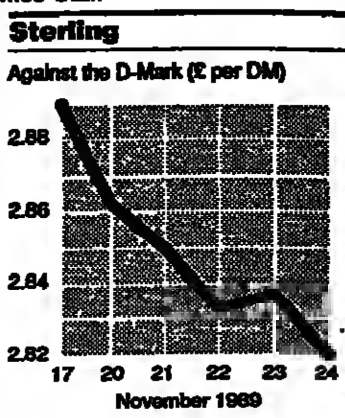
The currency markets now believe that the policy of propping up the pound with high interest rates used by Mr Nigel Lawson, Mr Major's predecessor as Chancellor, has been quietly shelved.

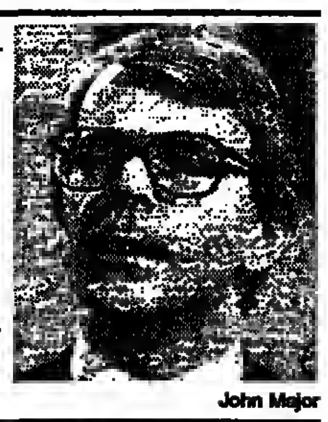
Some City of London analysts are convinced that Mr Major is prepared to let the markets decide the fate of the pound. The alternative would be a rise in interest rates to support sterling.

Analysts regard such a move unlikely because it would inflict further political damage on the Government at a time when the Prime Minister was facing a challenge to her leadership, and the Conservatives were falling further behind Labour in the opinion polls.

Sterling's decline in recent weeks has been exacerbated by the gloomy ontlook for the economy. The Confederation of British Industry, the employers' organisation, says in its monthly trends survey for November, pnblished today, that British business is increasingly pessimistic about the future.

Companies are reporting the worst outlook for orders for over two years, redneed demand for exports, and a growing accumnlation of stocks, according to the survey. In its latest forecast for the economy, also published today, the CBI predicts that the next two years in Britain will see slow overall economic growth, an end to the investment boom in manufacturing industry, and flat company profits.




John Major

Aware of widespread concern that the economy is being wounded by high interest rates, the Chancellor sought yesterday to allay the fears of the business community and the City of London that the economy is being pushed into recession.

He said that the forecast of 1¼ per cent economic growth next year, carried in the recent statement on Government expenditure plans, was not a prediction of recession. He said: "What will happen over the next year or so is that growth will continue, but at a modest rate."

Speaking on the subject of fiscal policy during the Channel 4 programme, Mr Major confirmed that there was little chance of fresh income tax cuts next year.

He said: "I don't know whether we'll be able to proceed with reducing taxes in the next Budget, or the Bndget thereafter. We will have to see what progress we make with inflation..."

The City had been alerted last week to the likelihood that there would be no reduction in the tax burden in the Budget next March when the traditional reference to the expectation of income tax cuts was omitted from the Queen's Speech

CBI details: Page 10

Deutsche Bank deal expected

By David Barchard

MORGAN GRENFELL, the London merchant banking group, is expected to announce today that it has struck a deal with Deutsche Bank, after a weekend of last-ditch negotiations to fend off a likely takeover bid from Banque Indosuez the French bank.

Mr John Craven, Morgan Grenfell's chairman, has to announce a deal by Wednesday, when shareholders at Willis Faber, the insurance broker, vote on whether to sell a further 10 per cent of Morgan Grenfell to Banque Indosuez at 462p a share.

Mr Craven is thought to have spent the weekend trying to persuade Deutsche Bank to make a bid at £5 a share, valuing the group at just under £800m ($1.26bn). The deal would involve at least one other institution.

Indosuez, which wants to form a pan-European banking group became the largest single shareholder in Morgan Grenfell on October 26. However, the price Indosuez is offering Willis Faber shareholders is 14p under last Friday's closing price of 476p. Morgan Grenfell's management has been determined to prevent the French bank becoming dominant among its shareholders.

Polls put Labour further ahead as Thatcher faces challenge

By Michael Cassell, Political Correspondent

PRESSURE aimed at averting a damaging challenge to Mrs Margaret Thatcher's leadership will intensify at Westminster this week in the run-up to the Thursday deadline for nominations from any challengers.

At the start of what inevitably will be a tense and anxious week for the government, there was further bad news in the shape of new opinion polls putting the Labour opposition party still further ahead and confirming recent indications that Mrs Thatcher herself is increasingly regarded as an electoral liability.

No challengers to the Prime Minister have yet formally announced their intention to stand, although Sir Anthony Meyer, the MP for Clwyd North-West, yesterday repeated his readiness to challenge the Mrs Thatcher if no one else came forward.

Mr Christopher Patten, the Environment Secretary, said that Sir Anthony's challenge was "bad for the country and certainly bad for the Conservative party".

He said it would be "profoundly dishonourable" for a former minister in Mrs Thatcher's administration to do other than argue and fight vigorously for her to continue.

Some MPs last night suggested that Sir Anthony could yet bow to intense pressure not to provoke a contest which would further harm the government's standing.


The Prime Minister

But yesterday Sir Anthony emphasised his belief that it was Mrs Thatcher's continuing leadership itself which jeopardised a Conservative victory at the next election.

Sir Anthony claimed that about 20 Tory MPs who had been openly critical of his stand had privately urged him to go on.

He said that, unless Mrs Thatcher went now, he feared "a rather painful process of internecine warfare".

Mrs Thatcher is expected to brush off the possible challenge when she is interviewed on BBC television tonight. Though government whips accept they can bring little direct pressure on Sir Anthony to withdraw, they will be stepping up last-minute efforts to drive home the message to all MPs - either potential candidates or their supporters - that there should be no contest.

The main interest among Tory MPs this week will be to see whether any more substantial contestant decides to step forward before Thursday and then persuade a sufficient number of colleagues to register a strong enough protest on the following Thursday to undermine Mrs Thatcher's position.

According to a Mori poll in yesterday's Sunday Times newspaper, the Labour opposition lead the Tories by 14 percentags points, with 51 per cent support against 37 per cent for the government.

Labour's rating is the highest since Mrs Thatcher became prime minister and its biggest lead since November 1980.

The same poll shows that one in four Conservative supporters believe Mrs Thatcher should stand down before the next election.

Mr Michael Heseltine, the former Defence Secretary, emerges as the most popular alternative.

Sex equality report urges pay reforms

By Lisa Wood, Labour Staff

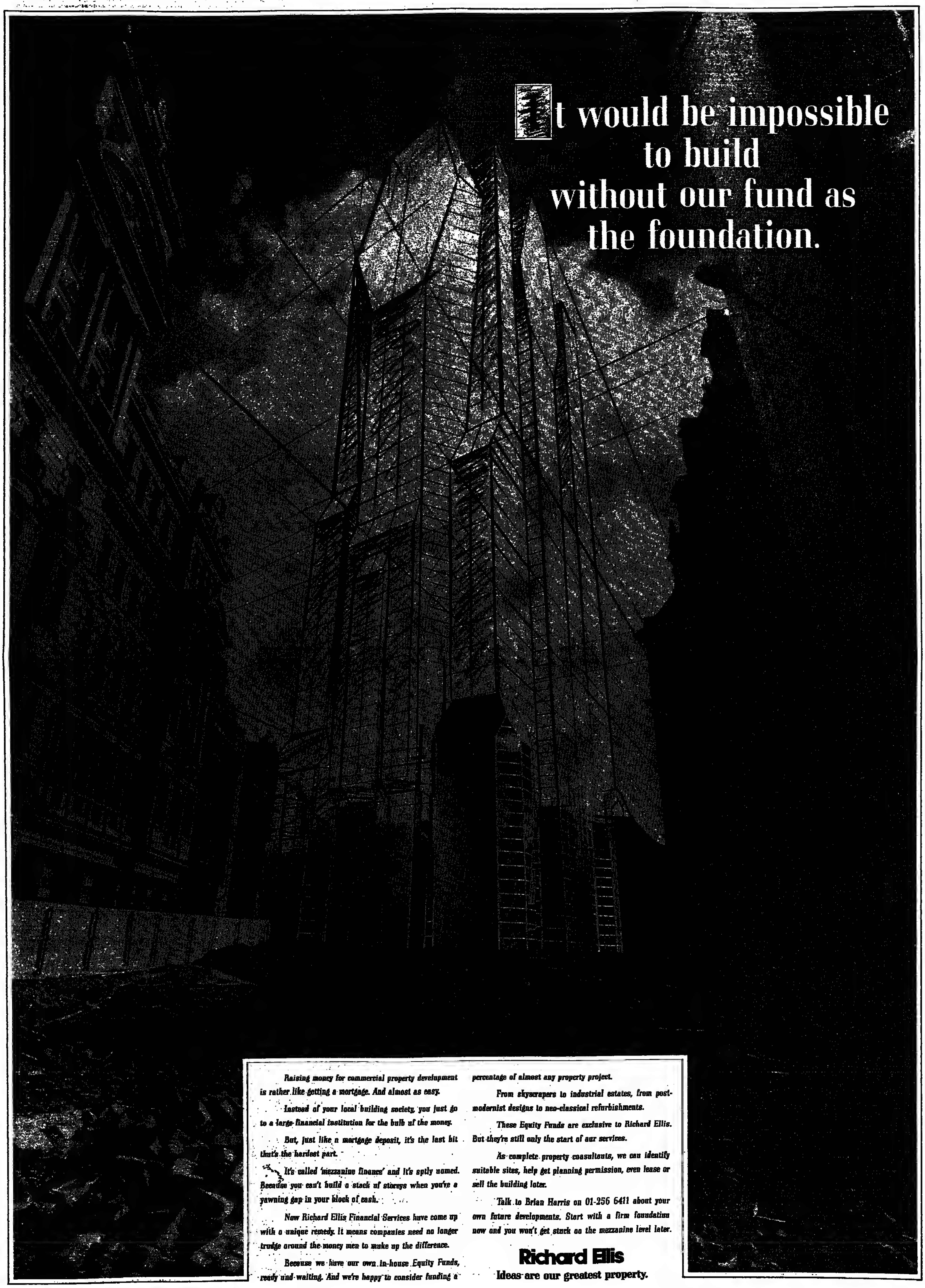
UNIONS and employers have not yet sufficiently widened the agenda of collective bargaining in order to tackle sexual discrimination at work, according to a report published today by the Equal Opportunities Commission.

The report comes at a time when many unions say they are putting more effort into changing bargaining to include women's issues. But the report, which examines the engineering, food and knitwear industries, indicates that the status quo still largely pertains in these industries.

The report, which follows an earlier study which pointed to the need for improved statutory provisions, argues that both employers and trade unions should "see the sense, as well as the justice" of tackling sexual discrimination. This would mean, in many organisations, integrating equal opportunity policies with the collective bargaining.

"The case studies reveal that the bargaining agenda are invariably narrow with pay as the most important and often the only item. Negotiators focus on increases in basic pay without questioning whether the existing pay or grading structures are fair to both sexes," the report says.

Negotiations were handled by men, and issues of particular importance to women were often perceived by their unions as minority rather than members' interests.



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Oftel faces legal challenge from games company

By Hugo Dixon

SIR Bryan Carsberg, the director general of the Office of Telecommunications, is facing a court challenge, indicating that he overstepped his authority in passing stiff regulations to control interactive telephone services.

It is believed to be the first time that a decision by any of the regulators set up by the Government to oversee the newly privatised utilities has been subject to judicial review.

The regulators were given considerable discretion and authority by the Government in order to make them independent of day-to-day political pressures. However, the current legal challenge seems likely to set a boundary to how such wide powers can be exercised.

Sir Bryan's decision is being challenged by Computerdial, one of the largest suppliers of interactive telephone services.

Computerdial managed to get a temporary stay of execution of the new rules during a High Court appearance on September 13. It is now seeking e court order quashing the rules.

Computerdial is best known for its telephone adventure games, which allow people to explore a fantasy world of mazes and monsters, and its telephone version of Trivial Pursuit, where customers are asked to answer general knowledge questions. The company has also been expanding into interactive business services, which are used for various types of promotions.

Compoterdial, a privately owned company with turnover of £2.5m last year, said its business was threatened by Sir Bryan's decision in July that interactive services lasting more than five minutes could be offered only if they conformed to a strict code of practice.

Sir Bryan wanted to control the services because he believed children were running up large phone bills by using the services, which are charged at a premium rate. That was a similar argument to the one be used to control Britain's controversial chatline services, which allow groups of people to gossip over the phone, after a Monopolies and Mergers Commission report into them earlier this year.

Computerdial argues that the MMC report's conclusions concentrated on chatlines, not interactive services. Moreover, it believes the director general did not give proper notice of his intention to regulate the services.

Mr Bret Pirquet, Computerdial's managing director, said: "We didn't want any decision to be made without careful thought."

Bird and Bird, Computerdial's lawyers, and Sir Bryan, said they expected the dispute to be settled by agreement. Any agreement would have to be approved by the court.

Mercury must share BT's subsidy costs

By Hugo Dixon

MERCURY Communications, British Telecom's smaller rival, will soon have to pay its share of the bill for subsidising loss-making rural phone services, according to the Office of Telecommunications, the industry's regulatory body.

The move will put an end to Mercury's ability to skim off the most profitable telephone business and leave BT with the burden of maintaining a nationwide network.

Sir Bryan Carsberg, Oftel's director general, refused to name a date when Mercury would assume such responsibilities. However, in an interview last week, he said: "We are rapidly moving towards the point."

At present, BT bears the whole responsibility for ensuring that anybody in the country can be connected to the phone network. It also subsidises the public phone box service, at e cost of about £30m a year.

The Government decided that it would be unfair to impose the same responsibilities on Mercury when it was starting up. However, Sir Bryan said he had always made clear that he would give Mercury a share of the social obligations when its business had progressed beyond the start-up phase, and that time was now rapidly approaching.

Mercury last week reported operating profits of £14m on turnover of £142m in the half year to the end of September. Mr Gordon Owen, its managing director, said the company was growing at an exponential rate, and that sales and profits were expected to increase strongly in the coming year.

Although that is still tiny by comparison with BT's operating profits of £1.5bn on turnover of £6.0bn during the same period, Mercury's traffic has been concentrated in lucrative business areas, particularly in the City of London, and on international routes.

It is unclear how much Mercury would be expected to contribute towards maintaining local services, because the exact amount of BT's social subsidy has to be calculated.

However, the money is likely to be raised from e special social levy on all phone calls.

'Green' tax planned to meet cost of pollution

By John Hunt, Environment Correspondent

A "GREEN tax" may be imposed on fossil fuels such as coal and oil in order to pay for the costs of the atmospheric pollution they cause, Mr Chris Patten, the Environment Secretary, said yesterday.

This is the first time that Mr Patten has publicly referred to such a tax, although he and Mr John Wakeham, the Energy Secretary, have emphasised over the past few weeks that the cost of energy will have to rise to meet the cost of a cleaner environment.

When Mr Patten's predecessor, Mr Nicholas Ridley, suggested such a tax in a pamphlet earlier in the year he came under fierce attack from the Labour Party.

Such a move would be politically dangerous and would involve higher domestic fuel bills as well as dearer petrol. Fossil fuels are the main contributor to the greenhouse effect of global warming.

It is now likely to be considered as part of the wide-ranging white paper on environment policies to be produced by the Government next year.

Yesterday Professor David Pearce, Mr Patten's special adviser, suggested that part of the revenue of "green" taxes could be used to offset the burden of income tax and corporation tax. Mr Patten appeared to agree. Both were appearing on BBC TV's On the Record.

Mr Patten said he was sure that Mr John Major, the Chancellor, would be examining such a tax. Mr Jonathan Dimbleby, the interviewer, asked if he would be asking the Chancellor to consider it for the white paper.

Mr Patten agreed that he would, even though the various possibilities would not all be popular.

Multi-track EC plans for 1992

By Robert Mauthner, Diplomatic Correspondent

A MULTI-TRACK European Community, with curbs on the powers of the European Commission and different groups of countries coming together on different priorities, is proposed in a report published today by the Institute of Economic Affairs.

The report emphasises that the European Commission is ill equipped to deal with the agenda of post-1992 co-operation in the Community, and calls for the removal of the Commission's "monopoly power" to propose legislation.

Entitled Europe's Constitutional Deficit, it proposes a five-point agenda for e new EC constitutional settlement after the 1992 single market.

Europe's Constitutional Deficit. IEA Inquiry 13. IEA, 2 Lord North Street, London SW1P 3LB. Free.

Cash flow trouble in 'arms sale of century'

Andrew Gowers finds the euphoria of a £15bn deal with Saudi Arabia is diminished

WHEN a significant expansion of Britain's Al-Yamamah defence contract with Saudi Arabia was announced in July last year, many observers were quick to hail it as "the arms sale of the century."

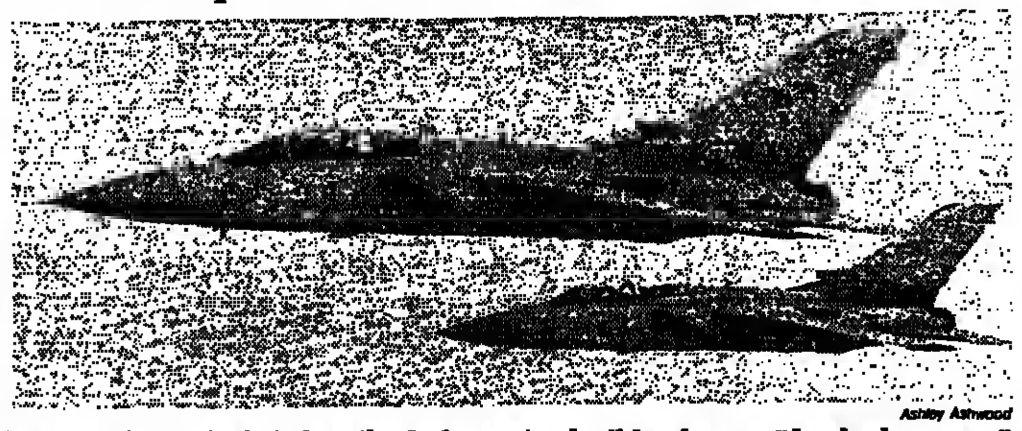
Overnight, an already lucrative agreement for the supply of Tornado fighter aircraft was transformed into an agreement that placed Britain in the very front line of Saudi Arabia's military suppliers. It was a massive framework, into which deals could be slotted that might eventually be worth upwards of £15bn and keep British Aerospace and a whole range of other British defence companies busy into the 21st century.

Today, there must be moments when BAe and the other contractors involved – principally Westland and Vosper Thornycroft – find themselves wondering whether the contract is not coming more closely to resemble a protracted headache.

British Aerospace is involved in a costly and time-consuming effort to drum up £1bn in offset investments in Saudi Arabia which it had not envisaged or budgeted for when the contract's first phase was initialled in 1985. Some of the other companies are waiting anxiously to hear when, or if, their parts of the deal are likely to go forward.

But by far the biggest problem plaguing the deal is a financial one. It goes back almost to the contract's beginnings in 1985 and revolves around fluctuations in the price of oil, the "currency" in which Saudi Arabia is largely paying for equipment.

Under a barter arrangement in force since the contract began, Royal Dutch/Shell and British Petroleum have been lifting 400,000 barrels a day (b/d) of Saudi crude and paying the proceeds into a Ministry of Defence account, from which relevant payments are passed on to the contractors. By a curious stroke of ill luck, oil prices began a precipitous plunge soon after the first deal was struck, thus sharply reducing the flow of cash into BAe's coffers. All efforts to resolve the issue to date have foundered.



Tornados for crude: but since the deal was struck oil has become "devalued currency"

The matter has been coming to a head this year after the signing of Al-Yamamah 2. It has been common knowledge along bankers in Riyadh for some time that BAe is worried by the increasing disparity between the volume of equipment supplied and the flow of money from Saudi crude. Concern about the risks involved in the barter deal even prompted the National Audit Office, Parliament's financial watchdog, to launch its own discreet inquiry last spring.

Now the British Government is touting the idea of a £2bn bank loan to keep the project afloat. Unless somebody comes up with money of that order – or Saudi Arabia increases its commitment of oil by at least 100,000 b/d – something in the contract itself may well have to give.

The exact size of the gap between equipment supplied and oil receipts is unclear, but British Aerospace is believed to have delivered £4bn worth of equipment under phase one of the contract. Under both phases of Al-Yamamah, BAe, which has 3,000 expatriates working in Saudi Arabia on the contract, is supposed to deliver more than 100 Tornado fighters – including interdiction-strike (IDS) aircraft and the so called air defence variant (ADV) – as well as Pilatus PC9 trainers and Hawk 200 trainers. About 30 of the Tornados and many of the training aircraft have been delivered so far.

There was also provision for Saudi purchases of six minehunters from Vosper Thornycroft and of a sizeable batch of Black Hawk helicopters from Westland, as well as the construction of a large new air base at Al-Sulayil in the Empty Quarter of south-eastern Saudi Arabia.

Only one of the minehunters has so far been launched, due for delivery in 1991, and no firm orders have been placed with Westland. The financial difficulties, together with the easing of mining in the Gulf, have raised doubts as to whether the Saudi Government will want to proceed with these parts of the contract.

The current difficulty poses awkward dilemmas for Saudi Arabia, which has placed heavy emphasis on defence spending in spite of the recent years of recession and a chronic budget deficit. Boosting oil liftings under the agreement might prove problematic, as this would simply deprive other parts of the cash-hungry government of funds.

On the other hand, the Kingdom has historically been reluctant to engage openly in large-scale foreign borrowing, and Sheikh Hamad Sayari, governor of the Saudi Arabian Monetary Agency, told the FT last week that the Government had no such plans.

As a result, some foreign bankers in the Kingdom believe that any British-backed loan may take the form of an export credit to the companies themselves rather than a sovereign borrowing by Saudi Arabia. Who would be responsible for paying the interest is not clear.

Whatever financial arrangements are eventually agreed, insiders believe that a significant slowdown in deliveries under the Al-Yamamah contract may be inevitable and that a partial reduction in its scope is a strong possibility. "There are so many uncertain ingredients to this: the volume of oil liftings, the dollar/pound exchange rate, oil prices and not least Saudi Arabia's own priorities," said one person involved. "But I think there will be a slowdown of deliveries."

Fraud cases on the increase, report finds

By Alan Cane

FRAUD against large UK companies, especially those in the financial sector, is both substantial and on the increase, a report claims.

The report, conducted jointly by the University of Wales and Ernst & Young, the management consultancy, says few companies believe that either the recently established Serious Fraud Office or the tough new City regulatory regime are having much effect in curtailing fraud either in the financial services sector or in retailing, manufacturing and distribution.

No financial services company and only one in eight other companies had any confidence that the police could deal with a computer fraud.

It shows that of 200 leading companies surveyed this summer, over half had reported a fraud to the authorities in the past five years. Two thirds of those suffered a fraud involving more than £50,000, while just under 10 per cent reported a fraud involving more than £500,000. The worst frauds reported to the authorities involved average losses in excess of £215,000.

The report was designed to find executives' perceptions of the growth of fraud and views on what should be done.

The new study shows that half the companies contacted thought that fraud had become much more common in the past five years, while no concern believed it had become less common.

It was completed before Ferranti's financial difficulties, the result of an alleged fraud, became generally known.

Ernst & Young says the sheer scale of the Ferranti affair might have strengthened executives' conviction that fraud was growing.

Mr David Sherwin, Ernst & Young's fraud expert, points out in the report that the two London fraud squads alone dealt in 1988 with frauds that placed at risk sums totalling over £4bn; well over 100 times the sums dealt with 20 years ago.

The survey threw up an interesting hierarchy in the way "City frauds" were perceived: investment fraud was seen as worse than insider dealing, which in turn was seen as substantially worse than the dishonest making of multiple share applications.

Frauds were exposed chiefly through internal checks and audits but only rarely through an external audit. In contrast with the 1985 survey, there were no instances of disgruntled mistresses blowing the whistle on their erstwhile partners.

While executives were united in condemning fraud and urging that steps should be taken to prevent it, they were less positive about the penalties for offenders. In frauds involving £10,000, for example, there was support for the imposition of community service, a punishment rarely used by the courts in fraud cases. In general, companies were more concerned to retrieve lost money than to punish the fraudsters.

Fraud 89. Mrs D. Bell, Ernst & Young, Becket House, 1 Lambeth Palace Road, London SE1 7EU. £20.

DISHONEST employees and managers are costing the retail industry more than £2bn a year, a Manchester conference was told last week, writes Martin Regan.

Delegates to the conference on Fraud and the Retailer were told that most retailers can expect to lose between 1.5 per cent and 5 per cent of annual turnover through theft by customers and staff.

Sir Kenneth Newman, a former police commissioner, who chaired the conference, said attitudes to employee crime had to change before it could be tackled.

Unionists in election challenge

NORTHERN IRELAND'S two main unionist parties are to challenge each other in future general elections for seats which nationalists are deemed to have no chance of winning.

The move changes arrangements in existence since signing of the Anglo-Irish Agreement in 1985 whereby sitting MPs of the Democratic Unionist Party and Ulster Unionist Party have been given a clear run in elections.

The joint unionist pact in relation to the agreement will continue and there will still be co-operation over key marginal constituencies.

BA executive stays

MR Michael Batt, head of central marketing at British Airways, has changed his mind about leaving the company to take e position at Virgin Atlantic Airways.

Earliar this week Mr Batt announced he would be taking up an appointment as executive director responsible for commercial operations at Virgin, to be in charge of sales, marketing and products.

Mr Batt said yesterday that after closer examination of the position he had decided not to accept the offer.

Boeings 'safe'

A WIRING FAULT discovered in British Airways' five Rolls-Royce-powered Boeing 747-400 aircraft is not a threat to safe operation, the airline stated yesterday.

BA was one of three airlines flying 747-400 aircraft powered by Rolls-Royce engines that were last week notified of the fault by Boeing. Tha others were Qantas, of Australia, and Cathay Pacific, of Hong Kong.

Welsh investment

TWO Japanesa companies, Dynic Corporation and C.Itoh, are to join forces in a venture to produce printer ribbons in Cardiff.

The £0.5m investment will be the first by a Japanese concern in the Welsh capital since Panasonic started to produce television sets in the city in 1974. The plant will initially employ around 105 people and is expected to start next spring.

Government fears setback in Docklands

By Hazel Duffy

THE GOVERNMENT has expressed fears that the revival of London's Docklands, the centrepiece of its plans to revive the inner cities, may founder because of a downturn in the economy.

The fears have become apparent from the text of a letter sent recently by Mr David Hunt, the Environment Minister in charge of inner-city policy, to leading property developers active in Docklands.

In the letter Mr Hunt assured developers that there would be no backsliding from the Government's push to revive Docklands through a mixed public and private-sector partnership. He quoted the Autumn Statement, in which the annual financial commitment to Docklands rose to £813m from £499m in the years 1989-90 to 1991-92.

Mr Hunt said the transport system had to be improved, and the projects sponsored by the development corporation "must be sustained."

Students lobby banks over college loans

By David Thomas, Education Correspondent

THE NATIONAL Union of Students will begin a series of protest actions this week designed to persuade the banks to drop their participation in the Government's proposed student loans scheme.

The actions will include organising students to switch their bank accounts, as well as warning banks that their access to new students might be restricted.

Ten banks, including Barclays, National Westminster and Midland, agreed this month to draw up a prospectus for a Student Loans Company, which will administer the loan scheme due to be introduced next September.

However, no bank will have to agree formally to help run the loans company until after the Student Loans Bill, published last week, passes through Parliament.

The NUS believes that it can persuade other banks to follow the example of Lloyds, the largest of the three banks that has dropped out of talks with the Government.

The NUS will issue a circular this week to the offices of some 800 student unions asking them to launch a series of actions that will include:

- Mobilising individual students to warn their bank managers that they will switch their accounts from banks supporting the loan scheme.
- Organising mass lobbies by student customers of banks every Friday.
- Warning bank managers that participation in the loan scheme will result in withdrawal of etudent union accounts.

Balance-sheet price on brand values urged

By David Barchard

STRONG support for the idea that brands have a value that should be measured and known is contained in a survey published today by Interbrand, the brand consultancy that pioneered the idea that brands have market value.

The survey, by Payne Stracey Partners, is being published on the eve of the Accounting Standards Committee revising its rules on balance-sheet valuation of brands.

It shows that 92 per cent of financial directors and controllers at 71 large brand-owning companies in the UK believe brands have a financial value.

Of those, 83 per cent believe that the value of a company's brands should be disclosed in its financial statements, either as a note to balance-sheet accounts or in some other way.

Just under three quarters – 72 per cent – thought that an independent assessment of brand value was important. A similar ratio – 73 per cent – said that brand valuation was useful to brand management.

Slightly more of those surveyed – 77 per cent – said brand valuation was a way of finding merger opportunities.

Talks consider London road jams

By Kevin Brown, Transport Correspondent

LONDON'S rival Conservative and Labour local authority associations will join academics and businessmen today at a convention - highlighting cross-party concern over the capital's transport difficulties.

The convention, organised jointly by the Conservative-controlled London Boroughs Associatioo (LBA) and the Labour-run Association of London Authorities (ALA), aims to draw up a comprehensive transport plan.

Mr Simon Randall, chairman of the LBA's housing aod works committee, said: "London is grinding to a halt and positive action is needed now if the transport crisis is not to threaten its very future as a prosperous and competitive city."

The ALA will tell the convention that average traffic speeds in central Loodoo will fall from 11mph to 9-10mph over the next decade unless the Government accepts the need for radical improvements in public transport and controls on private car use.

Tha convention follows mounting concern among professional bodies that London is in danger of coming to a standstill. The Confederation of British Industry and the Institution of Civil Engineers are among those which have called for urgent action to ease congestion.

Mr Cecil Parkinson, the Transport Secretary, recently announced the go-ahead for a £1bn extension of London Undarground's Jobilee Line along the south bank of the River Thames via Docklands to Stratford, in east London.

However, decisions on a nnmber of other important railway projects in the capital have been put off, including a proposed east-west Crossrail scheme for a link with British Rail-bight tunnels from Paddington to Liverpool Street.

Mr Parkinson also faces a potential row next month when the Government releases the final proposals of consultants studying congestion in four specific areas of London.

Separately, the Government is considering going ahead with proposals to enforce a parking ban on key routes into London. An announcement is expected shortly, although it is not clear whether Mr Parkinson will adopt the proposals of a group of Conservative MPs who have campaigned for the establishment of "red routes."

They would have red lines painted by the side of the road instead of yellow ones, with severe penalties for parking offences.

Foreign tourists likely to reach record numbers

By David Churchill, Leisure Industries Correspondent

BRITAIN is on course to receive a record number of overseas visitors this year, according to figures to be published this week by the Government.

However, the statistics, which cover the first nine months of the year, come at a time wben the UK package tour industry is facing perhaps its worst difficulties yet.

The fall in travel bookings for overseas holidays, which the travel trade blames on rising interest rates, has already led to:

- A sharp fall in the level of package holiday bookings for next summer.
- Warnings that more than 1,000 travel agents might go out of business next year, with one of the leading multiple chains also being taken over.
- A cut in the operations of charter airlines, including the disposal of surplus aircraft and the leasing of others to airlines outside the UK.

Yet the World Travel Market opening tomorrow in London will this week accommodate 2,500 exhibitors - the highest number in its 10-year history.

It is the UK travel trade that is ehowing most pessimism about the demand for leisure travel in the early 1990s.

Market leader Thomson Holidays has already reacted to the fall by cutting its planned capacity by a million holidays for next year. However, many others expect the market to get even worse in the new year. A tourism report published last week also suggests that concern over pollution has led to a downturn in sales.

UK NEWS

Midlands will go green with project for megaforest

Richard Tomkins looks at plans for Britain's first large-scale broadleaf planting since the New Forest

THE creation of hardwood forests is a rare event in Britain. The last time it was done on any large scale was in 1097 when William the Conqueror delineated the New Forest in Hampshire as a hunting ground.

History, therefore, will be in the making today when the Conntryside Commission announces its proposals for establishing another new forest. Like William the Conqueror's, this one will cover an area of about 150 square miles, but this time it will be somewhere in the Midlands.

There are sound commercial reasons for creating what has already been dubbed the mega-forest. Britain, once a densely wooded island, has lost its trees to agriculture and industry over the centuries to the point where it has become the least forested country in Europe.

With an annual timber consumption of 50m tonnes, or 100m trees, Britain is able to meet domestically only 10 per cent of its needs. The result is an annual timber import bill of nearly £7bn to make up the difference – tha country's fourth-biggest import bill after food, fuel and motor vehicles.

Commercial objectives, however, are not the main ones underlying the Countryside Commission's scheme. On the contrary, the commission argues that commerce has played too great a part in dictating forestry policy, and that woodlands should achieve a wider range of objectives.

At the end of the First World War, Britain was even more severely deforested than it is today, with only 5 per cent of the country covered. In the 70 years since, extensive planting has taken place: but the policy underlying it has focused on increasing timber production.

The result is that although Britain's woodlands have increased by 1m hectares, most of the new trees are fast-growing conifers that have sprouted up in densely packed, regimented rows in upland areas, where the land is cheapest.

In 1987 the Countryside Commission – the Government's official advisory body on countryside matters in England and Wales – carried out a review of forestry policy, in which it questioned the economics of snbsidising extensive plantations with tax reliefs and grants at a time when improvements in husbandry were making imports from other countries increasingly competitive.

It also argued that existing policy was out of step with growing concern over tha environment and with the demand for recreational use of the countryside. It called for a shift away from the mountainside plantations in favour of multi-purpose lowland forests that would provide public amenities as well as commercial profit.

One practical proposal that came out of the review was for a series of 12 "community forests" of 40 to 65 sq miles each to be created on the outskirts of Britain's larger cities.

Plans for the first two, in south Staffordshire and south Tyne and Wear, ware announced in July.

The second prong of the strategy was the megaforest itself. It is intended to combine all the most desirable aspects of a multi-purpose forest by providing a recreational and tourism resource, enhancing the environment, providing opportunities for linked commarcial davalopments, and contributing to the national timber supply.

The idea is to create not just a dense mass of woodland, but a blend of wooded areas, open country, villages, lakes and farmland. Leisure opportunities could include camping, cycling, water sports, adventure play areas, and nature trails.

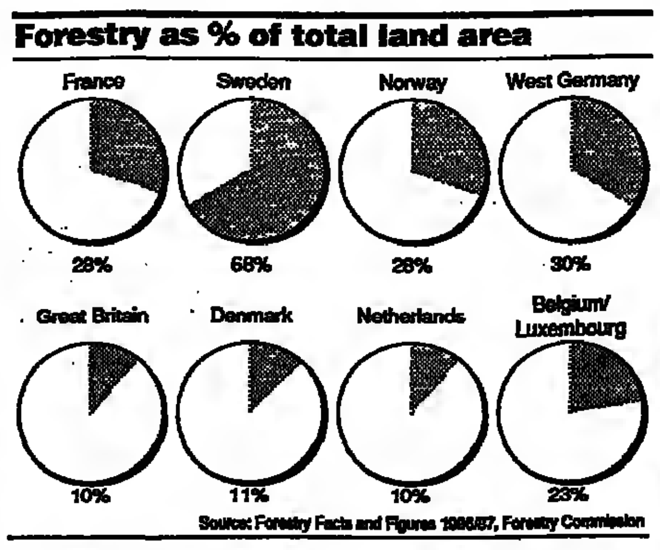
The forest will not involve massive land seizures, but will rely instead on a co-ordinated effort between public and private sectors. The commission hopes farmers and landowners will be keen to back the scbema because it will offer opportunities to exploit tha potential of land made redundant by EC food surpluses.

The Midlands has been chosen for the megaforest because it is densely populated, yet lacks the national parks and coastline that other regions enjoy. The forest could also soak up the region's looming agricultural land surpluses stemming from the widespread adoption of cereal farming in earlier years. Details of the possible locations for the forest will emerge today, although speculation over the last few months has centred on a re-establishment of one of the "lost" forests of the Midlands: the Forest of Arden in Warwickshire, the Wyre Forest in Shropshire, Charnwood Forest in Leicestershire, Sherwood Forest in Nottinghamshire, or Rockingham Forest in Northamptonshire.

Also emerging today will be details of how the scheme will be financed. A figure of £50m to £60m has been bandied about as the likely cost, but it is not yet clear how much may be availabla in the form of existing government grants.

Competition for the forest migbt be fierce. The outline proposal was warmly welcomed in the Midlands, where local anthorities see the forest's potential as an attractive amenity as well as a counter to the issua of declining employment in rural areas.

The downside is that few involved in the decision-making process will live to see the result. The megaforest, consisting of slow-growing native broadleaf trees snch as oak, ash, hazel and willow, is a forest for the 21st century. It will take at least 50 years to create, and several generations to mature.



Source: Forestry Facts and Figures 1986/87, Forestry Commission

Members of Fimbra launch revolt over running costs

By David Barchard

MEMBERS OF the Financial Intermediaries, Managers and Brokers Regulatory Association believe they are close to victory in the first serious revolt by members of a self-regulatory organisation since the Financial Services Act came into force in April last year.

Although the Fimbra council's proposals for a now abandoned compulsory professional indemnity insurance scheme lies at the heart of the storm, the rebels make clear that their basic objection is to the way Fimbra has been run under Lord Elton.

Fimbra's annual meeting on December 13 will have four different resolutions on its agenda, each of which would make tbe position of Lord Elton, Fimbra's chairman, and 16 members of the 21-member board untenable.

The most strongly worded of the resolutions directly calls on Lord Elton and the 16 to go. More than 1,750 of Fimbra's 8,000 members have signed the resolutions, and more tban 2,500 members have delivered proxy votes, supporting a resolution calling on Lord Elton to resign.

Mr Andrew Paddick of the Institute of Insurance Brokers, one of three professional associations for which Fimbra is the self-regulatory organisation, said: "I think it is virtually certain that the proxy votes will outnumber those of Fimbra members attending the meeting by three or four to one."

He continued: "Fimbra has gone from crisis to crisis over two years. This is just the culmination of our frustrations."

The trade associations believe that professional indemnity insurance should be obtained on the open market and not through a tied scheme. However, another complaint is that Fimbra's annual accounts, publisbad last week, show expenses running well above expected levels.

"The deficit of £3m bas shocked Fimbra members," Mr Paddick said. "Fimbra bas beeo acting more like a spendthrift local authority with a bottomless purse."

The row is being closely watched by the Securities and Investments Board, tba ultimate regulatory anthority for the investments industry in the UK. The SIB has been trying to encourage a compromise over professional indemnity insurance.

APPOINTMENTS

Vickers managing director

■ Sir Colin Chandler has been appointed a director of VICKERS, and will succeed Mr R.D. Taylor as managing director on January 1. Mr Taylor remains on the board until he retires after the annual meeting in April.

■ Mr Bob Munton has been appointed to the board of SPEARHEAD EXHIBITIONS. He joined the group in 1981.

■ Mr Philip P.C. Gregory has been appointed group finance director and a managing trustee of MUNICIPAL MUTUAL INSURANCE. He was group finance director of Sema Group.

■ Mr Rowland Leigh, SAVOY HOTEL group company secretary, has additionally been appointed finance director.

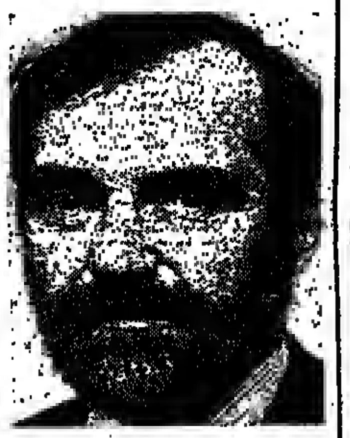
■ MANUFACTURERS HANOVER CORPORATION has promoted the following from vice president to senior vice president at the London office: Mr Clifford J.M. Fairley, offices and services group; Mr Malcolm Frost, personnel; Mr Philip L. McKee, UK representative office; and Mr George V. Tatev, eastern Europe group.

■ Mr Roger Fouldes has been appointed sales and marketing director of MONCASTER WIRE PRODUCTS, part of Ash & Lacy. He was group marketing director, J. & T. Group.

■ Mr Michael Collins has been appointed a director of ROYAL TRUST BANK.

■ Mr G. Francom has been appointed chief engineer of the ASSOCIATED OFFICES TECHNICAL COMMITTEE.

■ NATIONAL & PROVINCIAL BUILDING SOCIETY has appointed Mr Andrew Newell as risk manager. He was bond market manager.



Mr Les Baker (above), technical director of Rechem International, has been elected chairman of the NATIONAL ASSOCIATION OF WASTE DISPOSAL CONTRACTORS.

CBI sees low manufacturing output in 1990

By Peter Norman, Economics Correspondent

MANUFACTURING industry is suffering a slowdown in demand for its products and can look forward to only low output growth between now and the end of 1991, according to the Confederation of British Industry.

The confederation's industrial trends survey for November has found that more companies are reporting that their order books are below normal than at any time since October 1986.

The *organisation*'s latest two-year forecast, also published today, points to two years of slow overall economic growth, an end to the manufacturing industry's investment boom and flat company profits as the Government's counter-inflationary policy depresses domestic demand.

The CBI monthly industrial trends inquiry – which polled 1,250 companies between October 24 and November 15 – found that export demand had weakened, with a marked increase in the proportion reporting that export order books were below normal.

Commenting on the findings, Mr David Wigglesworth, chairman of the CBI's economic situation committee, said: "Any further erosion in business confidence or a deterioration in export markets could bring us perilously close to recession."

More companies are reporting greater stock levels than at any time so far this year, pointing to an accumulation of unsold goods.

The survey also suggests that manufacturers will not be increasing their output over the next four months.

On balance, only 1 per cent of companies expect to increase output between now and next March compared with 25 per cent a year ago.

The survey shows that 34 per cent of manufacturers now think their total order books are below normal, while only 17 per cent consider them above normal.

The employers' organisation said intermediate and consumer goods industries had reported order books "significantly below normal", with demand weakest for textiles.

The capital goods industry, in contrast, says that its overall orders are only slightly below normal.

However, capital goods manufacturers have experienced weak demand in foreign markets with large companies, employing more than 5,000 people, reporting significant declines in export demand.

About the only bright spot in the survey is itself a reflection of the slowdown in demand: fewer companies expect to raise factory gate prices in the next four months than was the case a year ago.

Meanwhile, in its latest quarterly economic forecast, the CBI gives a warning that fixed investment in Britain will stagnate next year while company profits will show no real growth in either 1990 or 1991.

The CBI has revised its expectations of economic growth for next year down to 1.4 per cent from the 2.3 per cent rate envisaged in its previous forecast in August and has said it expects growth of only 1.8 per cent in 1991.

The CBI's 1.4 per cent growth forecast for next year broadly matches the 1.25 per cent growth rate forecast in the Government's recent Autumn Statement.

However, the CBI is somewhat more optimistic than the Government in projecting a decline in the annual rate of retail price inflation to 5.3 per cent by the fourth quarter of next year from 7.5 per cent in the current quarter. The CBI has forecast that retail price inflation will average just 4.7 per cent in 1991.

Analysts have interpreted the Autumn Statement as implying that bank base rates will stay around their current 15 per cent level for most or all of next year. However, the CBI expects them to fall from 15 per cent to 12 per cent between the end of March and the end of 1990. It also assumes a further easing of base rates in 1991 to an average 11 per cent.

The CBI expects, too, that the Government will cut the standard rate of income tax to 24 per cent from 25 per cent in the 1991 Budget. It also expects a *strong* 5.8 per cent growth in the export of goods and services next year followed by 3.3 per cent growth in 1991. Imports are forecast to grow by only 1.1 per cent in 1990 and 1.9 per cent the following year.

The balance-of-payments deficit on current account is expected to fall to £13.8bn next year from a forecast £19.8bn this year. However, the CBI has projected a high current-account deficit of £13.3bn for 1991, reflecting expected slackening of world trade growth and increased consumer demand in Britain after the income tax cut it expects in 1991.

The CBI expects hardly any growth in business investment in the next two years.

EXTRACTS FROM THE CBI FORECAST

% change on previous year	1989	1990	1991
GDP *(output)*	2.2	1.4	1.8
of which manufacturing	4.6	1.3	2.3
Fixed investment	6.3	0.0	0.5
of which manufacturing	9.6	-0.1	0.2
Inflation (annual average RPI)	7.8	6.3	4.7
Exports: goods, services	5.2	5.8	3.3
Imports: goods, services	9.3	1.1	1.9
Current account (£bn)	-19.8	-13.8	-13.3
Stockbuilding (£bn)	4.4	-1.1	0.0

Lloyds Bank forecasts cuts in tax

By Peter Norman, Economics Correspondent

THE 1991 Budget is likely to see the British Government resuming its policy of tax reductions because it will be the *last opportunity* to influence the economy significantly before the next election, according to Lloyds Bank.

In the bank's latest UK Economic Outlook, Mr John Young, Lloyds' UK economic adviser, said the economy would hover on the brink of recession next year with growth decelerating to 1.6 per cent.

However, the outlook for inflation will remain poor, Mr Young added, with 5 per cent inflation becoming increasingly regarded as the norm for the UK economy in the early 1990s. The bank said the Autumn Statement forecasts of a decline in the current-account balance-of-payments deficit to £15bn next year from £20bn in 1989 were realistic. It said a further slow improvement to a deficit of £12bn in 1991 was possible although the deficit was likely to rise again afterwards as domestic demand recovered.

Fuel and energy companies fail to settle deal

By Charles Leadbeater

BRITISH COAL and the electricity generating companies have yet to agree on a three-year coal supply contract, according to senior executives at the corporation.

The already tense relations between British Coal and National Power and PowerGen, the two generating companies to be created by the privatisation of the electricity supply industry, have been further strained by comments last week by Mr John Baker, National Power's chief executive-designate, that a three-year deal had been drawn up that would freeze domestic electricity prices over the next year.

A senior executive at British Coal said Mr Baker's comments were premature. Within the outline structure of the deal, many details, including prices, remained to be settled.

British Coal will develop land left by pit closures

By Charles Leadbeater, *Industrial Editor*

BRITISH Coal is planning to move into property development to exploit the large vacant sites left by the pit closure programme it has conducted since the end of the 1984-85 miners strike.

The corporation's diversification into property development confirms a growing trend among large companies in industrial sectors that have contracted and restructured in the 1980s.

British Rail is involved in big developments at several central London stations. Associated British Ports, the country's largest port operator, earns about half its profits from property, while Sea Containers, the second-largest operator, last week announced a £200m development at Harwich docks and a £100m development at Felixstowe.

British Coal has long benefited from property disposals. All but 1,000 of the stock of 75,000 houses which it had at the end of the strike have been sold off. However, the move into property development marks a change of gear.

A senior corporation executive said: "We would not reach ABP's position of getting half our profits from property, but we hope to significantly improve our income from property."

British Coal's plans are being drawn up by Mr David Kendall, former chief executive and managing director of BP Oil, who joined the corporation in March as deputy chairman.

Under Mr Kendall's plans, the corporation would provide the land as its contribution to joint ventures with agents or developers, who would provide the finance for the development. The corporation would eventually benefit from rental income.

Power sell-off seen as pushing price up 50%

By Maurice Samuelson

THE LONG-TERM effect of privatising the electricity industry will be to push prices about 50 per cent higher than if privatisation were not to take place, two London Business School Economists predict today.

That is because of the higher rates of return on capital that will have to be earned by the privatised successors of the CEGB.

Their conclusion contrasts with assurances by Mr Cecil Parkinson, as Secretary for Energy, that competition in power generation would reduce prices in the long term.

It will be unwelcome to Mr John Wakeham, Mr Parkinson's successor, who is trying to overcome doubts about the progress of the privatisation.

Fiscal Studies, 180-182 Tottenham Court Rd, London W1P 9LE.

Advisers raise doubt over privatisation timetable

By Maurice Samuelson

THE GOVERNMENT is being urged to revise its timetable for selling the various parts of the electricity industry to ensure that its privatisation is completed before the next General Election.

Under the present timetable, the two Scottish boards are due to be sold next August, the 12 distribution companies of England and Wales two months later, and the two big generating companies, National Power and PowerGen, in the spring of 1991.

The Department of Energy yesterday said there was "no question" of abandoning that timetable. However, Kleinwort Benson, the Government's chief advisers, are said to be examining a number of different options over timing.

The generating companies, while insisting that they will comply with the official timetable, are understood to favour being sold simultaneously with the rest of the industry. National Power said: "Providing the conditions are right, we would be enthusiastic to be privatised as soon as possible. But it is for the Government to decide."

According to a City analyst, however, the generators wanted to be sold at the same time as the distributors because they feared "falling off the back end" in the queue for investors' funds.

The latest estimates suggest that the entire industry may be valued at about only £15bn, nearly half the amount suggested two years ago.

If it can be vested on March 31, the present target date, the entire industry could be sold together six months later, analysts say. However, the distribution companies may fear they would be submerged by a simultaneous sale.

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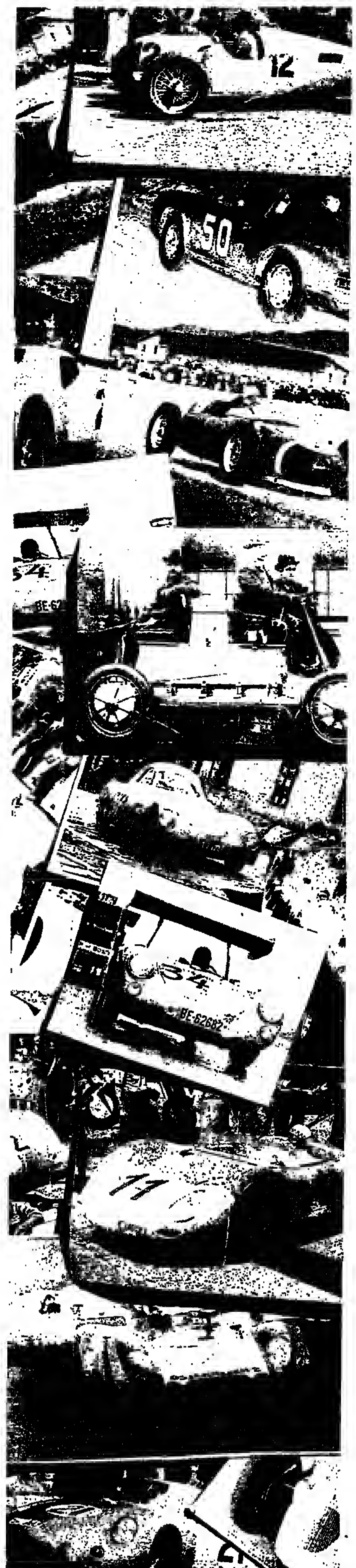
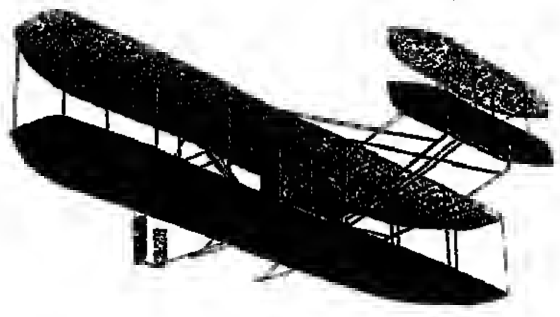


1903. ORVILLE WRIGHT DEFIES GRAVITY. 1989. PORSCHE DEFIES ORVILLE WRIGHT.



Oo a cold December day in 1903, Orville Wright discovered something that has kept Porsche engineers exercised for years.

Namely, that if you drive into the wind at speed the air rushing towards the vehicle will force it to lift off the grouod.

Which is fine if you want to be the first man oo earth to experience powered flight.

But annoying if you are obsessed with making what are undoubtedly the world's most revered performance cars.

Naturally, over the years, Porsche engineers bave not allowed something as trivial as the elemental forces of nature to deter them.

Indeed, they have produced any number of ingenious ways of eosuriog that all Porsches stay well and truly glued to the road.

Although none are as sophisticated as the 'grouod-effect' technology on Porsche's 944 S2.

Coosider, first, the enormity of its task.

Underneath the famous 944 bonnet of tbe S2 is a brand new engine.

A 3·0-litre, 211 brake horsepower, 16-valve thoroughbred.

Or, to put it in context, it is the most powerful normally-aspirated engine of its type in the world.

Amazingly, the enormous power of the S2 is produced by just four cylinders. Albeit, Porsche-designed cylinders.

Betweeo them, they are perfectly capable of taking the S2 from 0 to 62·5 in 7·1 secoods and to a top speed of 149 mph.*

Although at Porsche we do not coosider speed to be performance.

Balance. Cootrol. Stability. These are the dull words that excite Porsche engineers.

And these are the words that inspired the 'ground-effect' technology on the S2.

This advanced *air* maoagement *system* operates in four different areas of the car. The most important being the least obvious.

The underfloor of the S2 incorporates a single smoothed-out panel, allowing the air to flow uninterrupted from the front of the car to the rear.

Meaowhile, the *sleek new* nose *section* redirects much of tbe air that normally finds its way under the car, thus reducing turbulence.

Steering, road holding and braking are all enhanced dramatically as a result.

The rear spoiler deflects air away from the back of the car, which has the effect of reducing lift as the car reaches high speeds.

And not content with one spoiler at the back, the 944 S2 has another, uoderneath the bumper. As the air flows over it, the downforce adds to the stability of the rear end.

(Autocar & Motor recently heralded the S2 as 'the best handling car in Britain.' Now you know why.)

However, increased control isn't all that's new on the S2.

Every aspect of the car's design bas been looked at. Again. And again. And again.

(Obsession is a very harsh master.)

The result is a car which has practically been re-designed.

For total stability, the Transaxle drive line system connects the engine to a gearbox in the rear of the car, giving virtually perfect weight distribution of 50% front, 50% rear. (We told you our engineers liked balance.)

Also, the S2 is equipped with a catalytic converter, something it has in commoo with all Porsche's new models in this country. Indeed, according to a research study carried out by TÜV Bayern of West Germany, the

944 S2

new 944 S2 has the lowest carbon moooxide emission of any European car.

And naturally, Porsche engineers have made sure that none of the power or performaoce has beeo lost.

But perhaps the most remarkable developmeot on the new S2 is the exceptional torque at low revs.

You'll notice it most wheo you're driviog the 944 S2 in town.

Or winding up an Alpine pass (where you will also bave the chaoce to appreciate the S2's new suspeosion and specially-developed ABS braking system).

Either way, you'll definitely notice it.

Because, as with aoy fuoctioo oo any Porscbe, chaoges are only made if they make the drive more *exhilarating* and, *ultimately*, more satisfying.

'Driving in its purest form', Dr. Porscbe called it wben be built his first car, the original 356. And oo one bas come up with a better description yet.

If you would like to know more about the 944 S2 or *experience it yourself*, contact your local Official Porscbe Centre, listed in Yellow Pages, aod arrange a test drive.

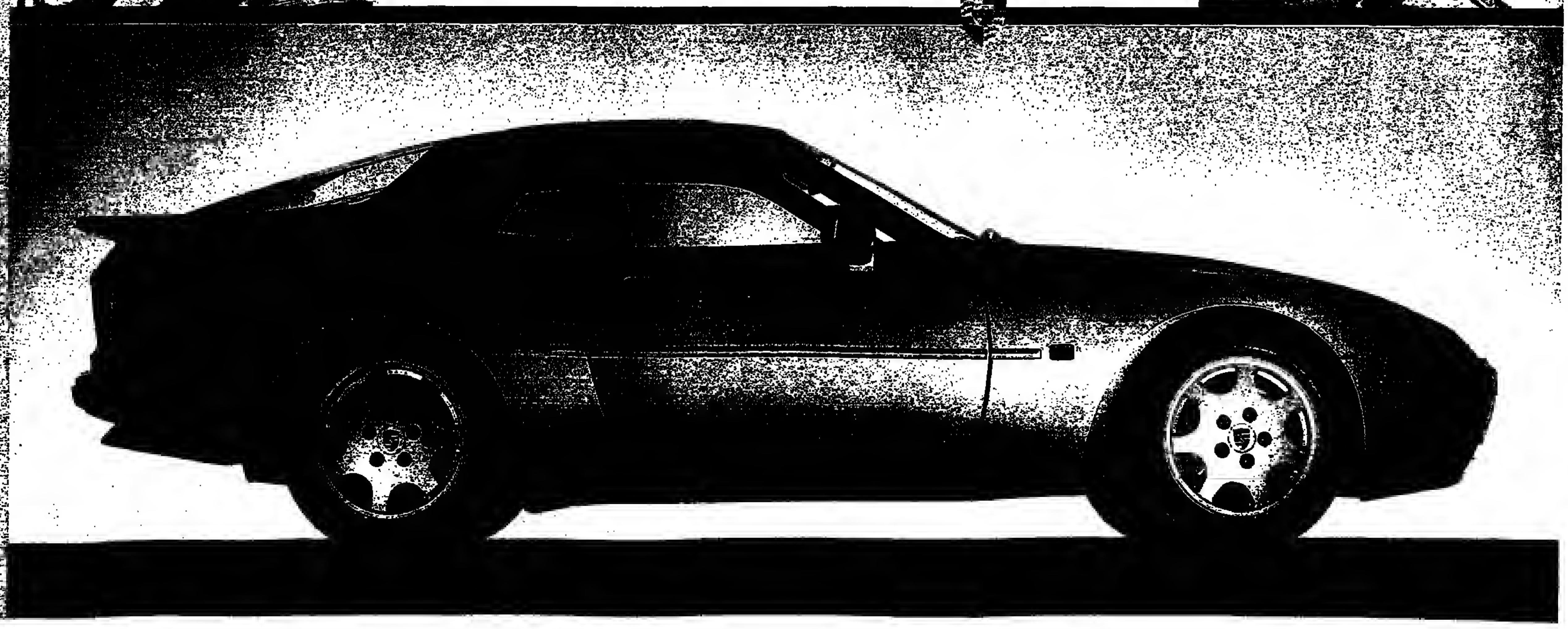
For more informatioo on the 944 Series, Diplomatic Sales or tax exempt personal exports, contact Customer Relations, Porsche Cars Great Britain Limited, Freepost, Reading RG1 1BR. Tel: 0734 323959. Fax: 0734 303713. Telex: 846465.

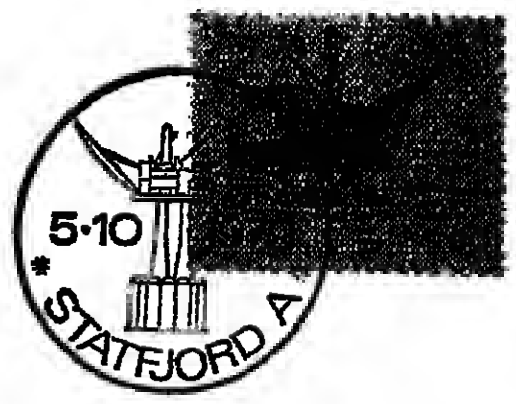
Porsche 944 S2 prices start at £32,024 as at 1st September 1989. *Manufacturer's figures.

The Porsche Crest and Script are registered trademarks of Dr. Ing.h.c.F. Porsche AG.

PORSCHE

DRIVING IN ITS PUREST FORM





One of the world's biggest oilfields is 10 years old. Happy birthday!

It is now ten years since the Norwegian-British Statfjord field started producing oil and gas. So far nearly 1,700 million barrels of oil have been produced, and 18,000 million cubic metres of gas have been sold to users in the United Kingdom and the Continent.

The operator for the field is the Norwegian state oil company Statoil. Operator for exploration, development and operations up to 1 January 1987 was Mobil.

Statfjord oil is a light, kerosene-like oil with a low sulphur and metal content. Most refineries use it unmixed, and it yields a full range of good quality, low-sulphur products. Statfjord oil is reckoned as the best of the North sea oil as fuel, and has very good environmental specifications.

Statfjord A, the oldest of the platforms, is a real pioneer in the history of the North Sea oil production. The decision to develop the field was taken in 1974, only a few months after the giant reservoir was proven and while the technology of oil production in the northern part of the North Sea was still in its infancy.

On 24 November 1979 the platform was ready for start-up, after a development that demanded the highest degree of engineering sophistication and practical construction expertise from everyone involved. About 50,000 people from more than 120 Norwegian and foreign companies had a part in the development.

The oil produced from the Statfjord field is tanker-loaded from loading buoys in the open sea. In the early years all the oil was shipped to ports in northwest Europe, but after Statoil built the crude oil terminal at Mongstad in Western Norway, Statfjord oil has a world-wide market.

The gas is transported by pipeline to the Northern Leg Gas Pipeline (NLGP) on the British side, and the Statpipe and Norpipe Gas Trasportation systems to Emden in West Germany.

Sales income from oil and gas so far amounts to NOK 300,000 million, or £27,000 million. Half of this is direct revenue for the two countries' exchequers.

It will be many years yet before the Statfjord field is empty. Production prognoses up to year 2010 indicates that another 1,300 million barrels of oil and 55,000 million cubic metres of gas can be produced. Improved oil recovery and alternative use of the installations can lead to prolonged operation of the field.

Statfjord will be a major supplier of oil and gas to the British market for many years to come.

STATOIL

£27,000 million-worth of oil and gas - and we're still only half-way!

The Statfjord Group

NORWEGIAN SECTOR: STATOIL, MOBIL, ESSO, SHELL, CONOCO, SAGA PETROLEUM, AMOCO, ENTERPRISE, AMERADA HESS. BRITISH SECTOR: CONOCO, BRITOIL, CHEVRON.

DIARY DATES

FINANCIAL

TODAY
COMPANY MEETINGS-
Haggas (John), Keighley, 11.00
London & Strathclyde Trust, Gartmore House, Monument Street, E.C., 2.30
BOARD MEETINGS-
Finals:
Bell Brothers
Windsor
Interims:
Allen
Chamberlain & Hill
Hewetson
JMD
Marrydown Wine
Ortiscio Intl.
Sheriks & McEwan
Tex Hldgs.
Vibroplant
Wardell Roberts
DIVIDEND & INTEREST PAYMENTS-
Amdahl Corp. 2.5cts
Blue Circle Inds. 3.5p
Clarkson (Horace) 2.5p
Consolidated Freightways 35.5cts
Early's of Witney 25.375p
Friendly Hotels 7% Cnv. Rd. Prf 3.5p
Green (Ernest) & Pnrs 4p
Hopkinsons Hldgs 1p
Kleinwort Benson 5.3p
Lloyds Chemists 1.65p
Mounders (John) 2.65p
Suter 2.6p

TOMORROW
COMPANY MEETINGS-
A.B. Electronic Products, St. Davids Hall, Cardiff, 11.30
Barry Wehmiller Intl. 1, Finsbury Avenue, E.C., 12.00
Regentcrest, Churchill Hotel, 30, Portland Square, W., 11.00
BOARD MEETINGS-
Finals:
Bennett & Fountain
Crossprint
Fairline Boats
Leeds Grp.
Northern American Tst.
Radio City (Sound of Merseyside)
SAC Intl.
Sanderson Electronic
Tate & Lyle
Young (H.)
Interims:
Allied-Lyons
Argyll Grp.
Chemoxy Intl.
Elga Grp.
Hambros
Monks Inv. Tst.
NEC Corp.
NSM
Verson Intl.
DIVIDEND & INTEREST PAYMENTS-
Boxmore Intl. 1.7p
Bryant Grp. 3.4p
City of Oxford Investment Trust Inc 0.9375p
FAI Insurances 4cts

WEDNESDAY NOVEMBER 29
COMPANY MEETINGS-
Allwoods, The Pickeridge, Stoke Common Road, Fulmer, Bucks., 12.00
Savage Grp., Cornhill Mill, Park Street, St.Albans, Herts., 10.15
TSW, Derry's Cross, Plymouth 2.00
BOARD MEETINGS-
Finals:
Bass
Dundee & London Inv. Tst.
Henecs
Kwik Save
Multitrust
Parkway
Perpetual
TSB Channel Island
Interims:
BPB Inds.
Caledonia Invs.
Doreson Intl.
Foster (John)
Porter Chadburn
Siebe
Trimoco
Vosper Thornycroft
DIVIDEND & INTEREST PAYMENTS-
A.B. Electronics Prods. 10.5p
Allied Insurance Brokers 1p
BLP Grp. 1.5p
Bank of Montreal 53cts
Broken Hill Proprietary Co 17.5cts
Crestor 1p
Cussins Property 3.75p
Domestic & General 3.5p
Minerals Oils & Res. Fd. Inc. 10cts
Tesco 1.41p

THURSDAY NOVEMBER 30
COMPANY MEETINGS-
Beezer, Goldball, Bath, 12.00
Microfilm Reprographics, Farmers & Fletchers Livery Hall, Cloth Street, E.C. 12.00
Norex, Minster House, Arthur Street, E.C. 11.30
BOARD MEETINGS-
Finals:
Lyons Irish Hldgs.
MEPC
Royal Bank of Scotland
United Drug
Interims:
Apricot Computers
Aviva Petroleum
Castings
Erskine House
Isopad Intl.
Jarvis Porter
Mansfield Brewery
Osborne & Little
Penny & Giles
Rolfe & Nolan
Scapa Grp.
Stoddard Sekers
United Inds.
Vistec
DIVIDEND & INTEREST PAYMENTS-
Adscene 3.575p
Allied Lyons 5½% Prf. 1.925p
Do. 7½% Prf. 2.625p
Amalgamated Fin. Invs. 0.4p
Armitage Bros. 7½% 1st. Mtge Deb. 85/90. 3¾pc
Automated Security Hldgs. 6% Cnv. Red Prf. 3p
Do. Cnv. Uns. Ln. 90/95. 4p
BMSS 1.675p
BTR Nylex 10cts
Bank of Scotland (Governor & Co of) 9¼% Non-Cum Irrd Prf 4.625p
Do. Uns Var Rate Nts. $238.63
Bank of Tokyo ¥1780.14
Bankers Inv. Tst. 0.85p
Do. 3.15% Prf. 1.75p
Barker (Charles) 1.3p
Bradford & Bingley Bldg. Soc. Fltg. Rate Nts. 1994 £380.5
British Fittings 1.25p
Bryant Grp. 5% Prf. 2.8p
Caisse Geral De Depositos $505.16
Canning (W.) 7¾% Uns Ln. 89/93. 3⅞pc.
Carparo Inds. 1.3p
Do. 6% Prf. 4.2pc
Capital & Counties 1st Mtge. Deb. 3⅞pc.
Carbo 2.5p
Cater Allen Gilt Inc. Fd. 20p
Chase Manhattan Fltg. Rate Subord Nts. 1997 £233.62
Chemical Bkng. $72.82
Citygrove 7.75% Cnv. Red. Prf. 3.875p
Continental & Ind. Tst. 1.625p
Co-Op Bk. 4.625p
Cropper (James) PLC 9% Uns Ln. 84/89 4½pc.
Delyn Packaging 0.45p
Eadie Hldgs. 1p
Electric & Gen. Inv. Co. 10¼% Deb. 2011. 5⅛pc.
Expeditor Leisure 3.675p
Fifth Thompson Co. 7.25% Cnv. Uns. Ln. 2003. 3.625pc.
First Chicago Overseas Finance $232.34
Forward Tech Inds. 0.6p
Fundinvest 6.55p
General Mining Union Corp. 220cts
Do. 8.5% Var Comp. Cnv. Prf. 225.25cts
Do. Debs. 171.25cts
Gestetner Hldgs. 10% Cnv. Uns Ln. 90/95. 5pc.
Glasgow Inc. Tst. 0.5p
Goodhead Grp. 3.5p
Great American Bk 5cts
Greene King & Sons 6¼% Uns Ln. 88/93. 3⅛pc.
Guidehouse Grp. 0.4p
Harding Grp. 1.1p
Hill Samuel Grp. Perp Fltg Rate Nts. $605.16
Hunting 8.25% Cnv. Prf. 4.125p
Hydro-Quebec 15% Ln. 2011 7.5pc.
ISA Intl. 0.38p
INSTEM 1p
Johnson Matthey Deb. 85/90. 3¼pc.
Jove Inv. Tst. 3.65p
Kleinwort Benson Gilt Fd. 24.54p
Kleinwort Benson Lonsdale $511.51
Do. Ser.2 $511.51
Leisure Invs. 7% Cnv. Red Prf. (88/93) 3.5p
Lesund Intl. Invs. NV. Gtd. Fltg. Rate Nts. Nov. 1999 $30.2
Lloyds Bk. Ital(Series 2) £232.24
London & Euro. Grp. 10½% Uns Ln. 1993 5¼pc.
Marylebone Estates Co. 1.5p
Metsec 2.25p
Menlo Fd. Inc. 14.28cts
Mercantile Capital & Ind. Tst. 7p
Midland Bk. 14% Subord Uns Ln. 2002/07. 7pc.
Minstergate 6p
Murray Ventures 4.7p
NCR 4% Gtd. Ln. 93/98. 2pc.
Nationwide Anglia Bldg Soc. £63.26
Northern Foods 7¼% Deb 85/90. 3⅝pc.
O.K. Bazaars (1929) 6% 2nd Prf. 6cts
OCE (U.K) 4½pc.
Ocean Wilsons 0.5p
Orchid Technology 0.5cts
Oxeley Estates £9668.09
Osterreichische Landerbank AG. Fltg Rate Subord Nts 1994 $232.08
Paterson Zochonis 7½% Prf. 3.75p
Do. 10% Prf. 5p
Peel Hldgs. 2.625p
Perry Grp. 2.75p
Presidio Oil Co. 2.5cts
Prudential 3.1p
Robert Fleming Netherlands BV $514.31
Rosehaugh Greycoat Ests. 11% 1st. Mtge. Deb. 2014 5½pc.
Roxtel 1.5p
Royal Bk Of Canada 56cts
Sainsbury (J) 6½% 1st. Mtg. Deb. 88/93. 3⅛pc.
St. Mowden Props. 4.25p
Save & Prosper Return of Assets Inv. 4.5p
Scanfords Hldgs. 3.625p
Scott & Robertson 3p
Senior Engineering Grp. 1.09p
Sidlaw Grp. 4.25p
Silkolene Lubricants 6p
Stoddard Sekers Intl. 2p
Strong & Fisher Hldgs. 8.3p
Svenska Intl. $498.8
T.I.P. Europe 3.4p
TMC P.I.M.B.S. £363.63
TR City of London Tst. 1.05p
TR Trustees Corp. 10½% Deb. 2016. 5¼pc.
TSB Grp. £357.60
T.T. Finance 11⅛% Gtd. Deb. 2016. 5⅝pc.
Tarmac 2p
Thorntons 1.68p
Throgmortons Tst. 12⅛% Deb. 2010 6⅛pc.
Thurgar Bardex 0.85p
Unisys 8% Deb. 87/92. 4pc.
Wade Potteries 5p
Wells Fargo Fltg. Rate Subord Nts. 1992 $73.23
Do. Fltg. Rate Sub. Nts. 2000 $73.44
Western Mining Corp. Hldgs. 17cts
Whittington 0.2p

FRIDAY DECEMBER 1
COMPANY MEETINGS-
Allied London Properties, Inn On The Park, Hamilton Place, Park Lane, W., 12.00
Halstead (James), Holiday Inn, Peter Street, Manchester, 12.00
Pochins, Brooks Lane, Middlewich, Cheshire, 12.00
BOARD MEETINGS-
Finals:
Bank of Nova Scotia
Interims:
Chloride Grp.
Mountview Estates
Reliance Security Grp.
Smith (James) Estates
DIVIDEND & INTEREST PAYMENTS-
AMAX Inc. 20cts
Agricultural Mtge. Corp. 4½% Deb. 81/91. 2¼pc.
American Brands Inc. 88cts
American General Corp. 37.5cts
Asarco 40cts
Audit & General 0.3p
Austin Reed 3p
Do. "A" Ord. Non. Vtg. 3p
B.A.T. Inds. Fltg Rate Capital Nts 88/90. 6.988pc.
BM Grp. 2.4p
Cater Allen Hldgs. 5% Prf. 1.75p
Do. 4.2% 2nd Prf. 2.1p
Daree Ests. 5¼pc.
Delta 3.9p
Edinburgh Inv. Tst. 2.5p
Electricity Supply Board 6¾pc.
Fujitsu Yen Y4
Garton Engineering 1.75p
General Cons Inv. Tst. 1.4875p
Genfinance NV 5.746pc.
Govett Atlantic Inv. Tst. 4½% Prf. 1.575p
Do. 5% Prf. 1.75p
Do. 5½% Deb. 85/90. 2¾pc.
Govett Oriental Inv. Tst. 0.6p
Do. 5% Prf. 1.75p
Great Portland Estates 4¼pc.
Halstead (James) Grp. 5.75p
Hambros Inv. Tst. 1.225p
Harris (Phillip) Hldgs. 2.625p
Do. 8% "B" Prf. 2.8p
Health Images 8.5% Cnv. Subord Debs 1/12/98 8¼pc.
Do. 8.5% Cnv. Subord Sers. B Debs. 1/12/98 8¼pc.
Hi-Tec Sports 1.5p
Ibstock Johnsen 2.25p
Illingworth Morris (Saltaire) 1.225p
Inco 25cts
Ingersoll-Rand Do. 30cts
Intl. Bus. Comms. 1.5p
Kirklees Met. Council 5.8%
Kleinwort Charter Inv. Tst. 2p
Lamont Hldgs 3.25p
Law Deb. 4½% Deb. 2¼pc.
Lee Valley Water 1.4p
Do. 3.5% Ord. 1.75p
Do. 2.8% Prf. 1.40p
Legal & General 5.2p
Lewis (John) Ptnrship. 1.75p
Do. 7½% Prf. 2.625p
Lilleshall 1.25p
Lincat Grp. 3.1p
Lister & Co. 5% Prf. 1.75p
Do. 4% Deb. Red. 2pc.
Lombard North Central 1.75p
Do. 6% Prf. 2.1p
London County 3% Cons. 1920 1½pc.
Do. 2½% 1920 1¼pc.
M & G Intl. Income Fd. 1.92p
Meggitt 1.1p
Metal Closures Grp. 2.35p
Microfilm Reprographics 3.375p
Monks Inv. Tst. 11% Deb. 2012 5½pc.
Monsanto 5% Gtd. Ln. 92/97. 2½pc.
Do. 6¾ Gtd. Ln. 92/97. 3½pc.
OKG AB 1997 5¼pc.
Ontario & Quebec Railway Co. 5% Perm. Deb. 2½pc.
Do. 6% Cap. 3pc.
Portsmouth Water Co. 1.75p
RMC Grp. 5.8p
RPH 1.4p
Do. 5% Prf. 2.8p
Reed Intl. 4½% Prf. 1.575p
Do. 5½% Prf. 1.925p
Scottish Mgts. & Tst. 1.1p
Scottish Television 5p
South Staffs. Waterworks Co. Class A 2.45p
Do. Class B 2.45p
Do. Class C 2.45p
Do. 3.5% Ord. 1.75p
Southampton Harbour Board 6¾ Red 85/90. 3⅜pc.
State Bk. of New South Wales 13⅞% Nts. 1993 6$\frac{15}{16}$pc.
Sun Alliance Grp. 4.5p
TR Australia Inv. Tst. 5% Prf. 1.75p
TR Trustees Corp. 1.575p
USLIFE Corp. 37cts
Ulster Television 3.5p
Vivat 2.45p
Watney, Mann & Truman Hldgs. 4¾% Red. Deb. 88/93. 2⅜pc.
Do. 6½% Red. Deb. 87/90. 3¼pc.
Whitbread & Co. 6¾% Red. Deb. 87/92. 3⅜pc.
Do. 6½% Red. Deb. 86/91 3¼pc.
Wright (John) (Weaving) 1.575p
Young & Co's Brewery 6½ 1st. Mtge. Deb. 84/89. 3¼pc.

SATURDAY DECEMBER 2
DIVIDEND & INTEREST PAYMENTS-
BAT Inds. 12¼% Uns. Ln. 2003/08. 6⅛pc.
Enterprise Oil 10⅛% Uns. Ln. 2013 5⅜pc.

Trade fairs and exhibitions: UK

November 26-December2
International Building and Construction Exhibition - INTERBUILD (01-486 1951)
NEC, Birmingham

November 28-December1
World Travel Market (01-948 9900)
Olympia

December 3-7
Royal Smithfield Show and Agricultural Machinery Exhibition (01-235 0315)
Earls Court

December 5-7
International Technology in Mining Symposium and Exhibition (0923 778311)
Harrogate

December 6-7
Energy, Safety, Security and Handling Exhibition (0296 434381)
County Cricket Ground, Birmingham

Overseas exhibitions

November 27-30
Money Exhibition (01-930 3881)
Dubai

November 30-December 8
Autumn Fair (01-486 1951)
Bahrain

November 28-December 2
International Shipping and Shipbuilding Conference and Exhibition (0206 45121)
Shanghai

December 1-11
Paris Boat Show (01-225 5566)
Paris

December 8-17
Business Fair - RIO NEGOCIO (01-499 0877)
Rio de Janeiro

December 12-15
International Telecommunications Exhibition - EUROCOMM (01-495 7977)
Amsterdam

Business and management conferences

November 28-29
FT Conferences: The food and drink indnstry in Europe (01-925 2323)
Hotel Inter-Continental, London

November 28-29
I.I.R. Industrial: Waste management in a green environment - developing technologies and enhancing UK markets for recyclable materials (01-287 2589)
Royal Aeronautical Society, London

November 28-30
DHA: "You won't do it anyway" - international total quality conference (0990 28712)
London

November 29
European Study Conferences: Employee share ownership plans – The road to wider share ownership (0536 204224)
The Churchill Hotel, London

November 29-30
The Textile Institute: The globalisation of textiles (061-834 8457)
Ramada Renaissance Hotel, Manchester

November30-December1
FT Conferences: World Banking: Europe after the Delors report (01-925 2323)
Hotel Inter-Continental,London

November 30
CBI Conferences: Defence procurement: Join the team (01-379 7400)
London

November 30-December 1
Forum Europe: Partners in the Transatlantic economy (Brussels: (32.2) 771 98 90)
Brussels

December 4-5
Royal Institute of International Affairs/The British Institute of Energy Economics/The International Association for Energy Economics: Environmental challenges: The energy response (01-930 2233)
Chatham House, London

December 4-5
FT Conferences: World Telecommunications (01-925 2323)
Hotel Inter-Continental, London

December 5
Ernst & Young: Tax investigations - a practical approach (01-222 5000)
Queen Elizabeth II Conference Centre, London

December 7
Fibex: Doing business in Spain - a comprehensive guide to corporate strategy (re-run) (01-489 9944)
Le Meridian Hotel, Piccadilly

December 7
The Henley Centre: Consumer convergence in Europe (01-353 9961)
The Brewery, London

December 7-8
I.I.R.Idustrial: Profit opportunities in the UK transportation infrastructure - what's in it for the contractor and financier? (01-434 0273)
Kensington Palace Hotel, London

December 8
The Strategic Planning Society: Strategy – Global or European? (01-636 7737)
London, SW1

December 11-12
Frost & Sullivan: Supervising personnel in a professional and technical environment (the Tritt method) (01-730 3438)
London

December 12
IGS (UK): Property developments and Government grants in the inner cities (01-863 6479)
Cafe Royal, London December 13

December 13-14
The Strathclyde Institute: International conference on strategic manufacturing (041-552 5821)
Gleneagles Hotel, Anchterader

CONSTRUCTION CONTRACTS

Laing builds Bradford courts

LAING has landed the £14.4m contract to build Bradford's new Combined Courts Centre.

The Property Services Agency has awarded the contract on a develop and construct basis - an arrangement pioneered at Middlesbrough where Laing are working on a similar project.

The new Combined Courts Centre at Bradford will be built off Vicar Lane, on the site of the old Exchange Station. Constructed on four levels, it will house eight Crown and two County Courts. Construction will involve an insitu concrete frame faced with York stone quarried at Huddersfield, chosen to blend with the surrounding buildings. Completion is scheduled for spring 1992.

Laing has won an order worth around £13m from the West Midlands Regional Health Authority for a maternity services building at the East Birmingham General Hospital.

The project involves construction of a two-storey reinforced concrete structure within the existing hospital. Facilities include a two-storey obstetrics block incorporating a neo-natal intensive care unit, a two-storey gynaecology/paediatric block, plus a single-storey twin theatre block and two-storey extension to pathology block.

Laing will also be responsible for work on the existing pathology and pharmacy departments, and a two-storey porter's lodge including shop and staff changing facility. Completion is scheduled for summer 1992.

One of Weston-super-Mare's landmarks is about to be given a new lease of life. Laing has been selected by Woodspring District Council to carry out a £5.3m design and construct contract to extend and refurbish the town's famous Winter Gardens Pavilion.

The Council's intention is to improve conference and exhibition facilities in the West Country resort. Buildings containing the Starlight Room and Pergola Bar will be replaced by the new extension which, when complete in June 1991, will contain a multi-purpose hall, function rooms and a new bar. An hydraulic stage which can be raised and lowered to various heights is a key feature.

In the existing building the box office is to be relocated next to the reinstated original entrance adjacent to the ballroom. A new centralised bar will be created in the current cloakroom and the existing foyer transformed into a bar lounge. The ballroom is to have a new sprung floor.

The extension has been designed to both blend with the existing building and to complement the development proposed for the adjacent site.

It will have a steel frame with rendered outer walls and powder coated aluminium glazing. The Pavilion itself will be cleaned and repaired and a new double glazed curtain wall system installed.

First canal aqueduct for over 50 years

EDMUND NUTTALL has been awarded a £4m contract by Milton Keynes Development Corporation to build the first new aqueduct on the Grand Union Canal for over half a century.

The aqueduct, a 150 metre long three-span structure with a prestressed concrete trough deck, forms a major part of the contract to construct a further 1.3km section of city road, Grafton Street, through Stonebridge to the Newport Road at New Bradwell. The contract includes construction of three underpasses and a footbridge.

The aqueduct will be built in two stages during the winters of 89/90 and 90/91 to avoid disruption of canal traffic during the busy summer tourist season. Both the road and canal should be open for traffic in spring 1991.

The last canal aqueduct to be built in Milton Keynes was the Iron Trunk Aqueduct which carries the canal 40ft across the River Ouse near Old Wolverton. This was built by William Jessop in 1809 at a cost of £2,677.

The last new canal aqueduct on the Grand Union Canal was built by the Grand Junction Company to cross the North Circular road at Stonebridge near Wembley in 1933.

Nuttall is an operating company of Hollandsche Beton Groep.

IN BRIEF....

BOWMER & KIRKLAND has been awarded a £6.25m contract to build a hotel at Mickleover, Derby. The project is for another Derby-based company, Minitech, which will occupy a suite of offices in the completed development. The hotel will have 78 air-conditioned, four-star standard bedrooms plus six suites on three floors. The ground floor features reception, shops, travel agents, coffee lounge, hair salon, bars and administration area; with a 120-seat restaurant, and a coffee lounge off the central atrium. A leisure centre includes an indoor pool and jacuzzi with exercise gym, saunas and sunbeds. The air-conditioned conference suite has two 60-seat conference rooms and a banqueting hall.

Raine subsidiary HALL & TAWSE GROUP has contracts totalling £20m. Among them is a £2.5m order for the internal fit-out of a branch of Boots at the newly-constructed Bon Accord Shopping Centre in Aberdeen. The Centre is the largest retail development in the city. The £60m project has been built entirely by Hall & Tawse for Bredero Projects. Work has started on a £3.7m contract to build a bonded distillery warehouse for Macallans at Craigellachie.

* * *

M.J. GLEESON GROUP is to redevelop Whittle Dene water treatment works, Northumberland, for Newcastle & Gateshead Water Co. Some 15 miles from Newcastle, the new facilities will treat 135,000 cu metres per day. The £5.35m contract will take 30 months to complete.

WALTER LAWRENCE CONSTRUCTION has been awarded four contracts totalling £7.4m. The company is constructing a seven-storey office building at St John Street, London at a cost of £4.5m, for London & Metropolitan Estates; and at Queen Elizabeth Street, London, is refurbishing a five-storey office building for 3i Commercial Properties will cost about £1.8m.

* * *

RAWLINGS BROS, part of the Goode Durrant Group, has won contracts worth over £10m. These include schools at Burnley (£1.8m) and Bolton (£1m), and extending Ravensbourne School for the London Borough of Bromley (£1m). Alterations at Strangeways Prison, Manchester, are worth £1.2m, while industrial units at Sandycroft, Deeside, are valued at £2m.

Birmingham waterside development

Waterlinks has awarded a £7m contract to build its first development - Aston Cross, Birmingham - to BRYANT CONSTRUCTION. Work starts this month.

The contract is for the first phase, a two- and three-storey, waterside office development of 162,000 sq ft, for sale freehold or to let, which is due for completion in December 1990.

Aston Cross is the pioneering project which will pave the way for the regeneration of 40 acres of largely derelict land alongside the Birmingham and Fazeley Canal by Waterlinks, a consortium of Tarmac, Wimpey, Douglas and Bryants. Waterlinks plans to build a 1m sq ft business village within the next four years.

Shops, a public house, and a restaurant will be built along the reconstructed canalside in locally-made red and blue brick. A management suite in a separate building will be ready for occupation in August, housing an exhibition of all Waterlinks developments.

Hotel at Derwent

Hexham's historic Slaley Hall is to become a conference and leisure resort hotel. Close to Derwent reservoir, the £30m Slaley Hall Sheraton will combine a championship-standard golf course with a 140-room hotel, indoor leisure centre, conference and banqueting facilities, time-ownership accommodation and holiday villas.

Conversion of the Hall and construction of the hotel are being carried out by FAIRCLOUGH on a £6.8m design-and-build contract from Slaley Hall Resort.

The three-storey hotel will incorporate a glass-domed leisure centre with two swimming pools, saunas, solarium and gymnasium. Completion is programmed for the spring of 1991.

MANAGEMENT

It is reporting season again for the UK's large accountancy firms. Earlier this month Coopers and Lybrand announced a record 35 per cent increase in its fee income for the 1988-89 year and during this week some of the other big firms are expected to turn in resplendent performances as well.

Growth is not confined to the big firms alone, and is not just a feature of the last financial year. The so-called Big Six have seen their income vault ahead by 20-30 per cent a year for each of the past five years or more, and the medium-sized firms have expanded as well – so much so that they are now the same size as the Big Eight were only a few years ago.

Despite the growth rates, the various markets in which the firms operate – ranging from management consultancy to tax advice and corporate finance – are fiercely competitive. All firms are actively interested in poaching business from their rivals and at all times they are to be found poaching each other's staff.

This combination of rapid growth and fierce competition has posed difficult management challenges for accountancy practices. Those at the top of the firms have found themselves juggling with three sets of priorities – the need to expand profitably, the need to impose a central command structure on the business and the need to keep morale and motivation high in what must count as one of the ultimate people businesses.

These management problems are more pronounced for accountants than they are for other fast-growing businesses. The main difficulty is a structural one: by law, firms of auditors must practise as partnerships rather than incorporated companies. The 1989 Companies Act will change this, but up until now the accountants have had to struggle to find a way of imposing corporate-style management onto a partnership.

The central problem with a partnership is that there is no division between ownership and management. For small firms, that does not present a problem – the firm will hold together through a mixture of shared goals and deference to experienced senior partners. But that cannot apply to the modern firms, the biggest of which have hundreds of partners generating fee income running into hundreds of millions pounds.

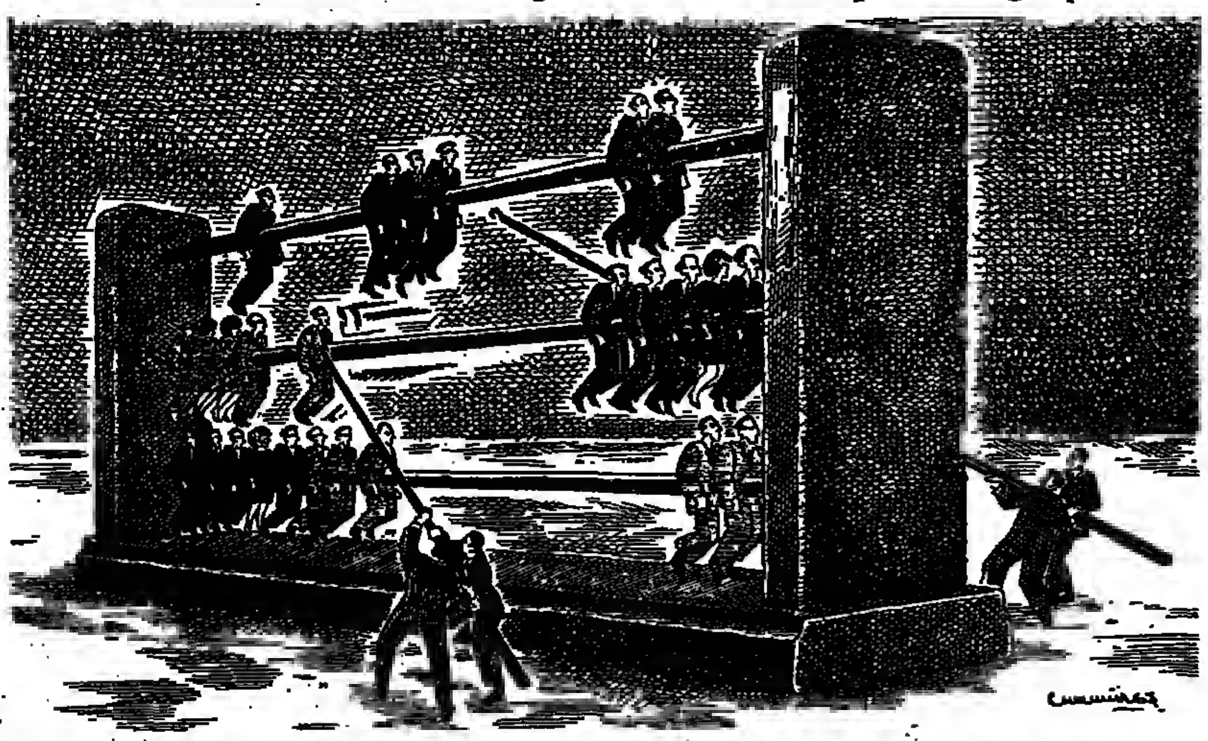
Each and every partner faces unlimited liability for losses sustained or damages brought against any individual partner or the partnership as a whole, regardless of the amount of capital he has committed to the firm.

The practical consequence of this is that partners may be psychologically unwilling to submit to centralised management authority. After all, if one's entire personal wealth is on the line, there is little incentive for one to relinquish management control over the business for which one is directly responsible. The culture of independence is encouraged by the training which partners have gone through in order to become chartered accountants.

UK accountancy practices

Partners with a corporate sense of responsibility

David Waller examines how management and ownership are being separated



Hugh Aldous, managing partner of Stoy Hayward, the UK's twelfth largest firm after the latest wave of mega-mergers at the top end of the profession, points out that the formal partnership agreement is often a document of great antiquity, drawn up in an earlier era of the 150 year-old accountancy profession. Typically it would spell out the way in which profits are shared and dictate that one partner be allowed one vote in any matter of consequence for the firm as a whole.

"There is no Companies Act defining management's obligation to shareholders," says Aldous. "If the firm were actually managed according to the detail of the partnership deed, the result would be total and absolute anarchy."

The management problem is to encourage the partners to dispossess themselves of some of their powers in as sensitive a way as possible. Any approach which is manifestly autocratic could lead to business disaster as valuable human assets pick up their calculators and walk out of the door to join another firm.

Firms have tackled the problem in different ways, but some broad themes emerge:

■ The first step is to devise a strategic plan locating the firm within a well defined sector of the market place. For example, most of what used to be the Big Eight firms have decided to dedicate themselves to serving multinational clients across a range of disciplines. Although many have diversified, this strategy is cited as a reason for this year's wave of mergers between the big firms.

By contrast many of the medium-sized firms have abandoned their attempt to serve the big public companies and have decided to address themselves to the "owner managed" business sector, ie companies with a turnover of between £20m and £50m. Robson Rhodes, for one, forged itself a new strategy in 1987 with the help of the Ashridge Management College. As a result of the process the firm committed itself to being "elite, professional and expensive."

■ There must be a restructuring of the partnership agreement – a reshaping of the constitution of the firm in order to reflect commercial reality. To take one example, the 250 partners in Grant Thornton, the UK's tenth largest firm, voted away significant powers in March this year at their annual meeting. They agreed that the majority required to approve sensitive decisions on the nature of the partnership would fall from 90 to 75 per cent.

They devolved the right to appoint new partners to an elected policy board – although they recognised that in practice partners are actually nominated by a small executive team headed by David McDonnell, the firm's recently appointed national managing partner.

■ The management structure of the firm must be refined. As part and parcel of their reform exercise, Grant Thornton's partners agreed to a radical change in the role of the office managing partner. Hitherto these partners had been appointed by their colleagues in the local offices. Now they are appointed by eight regional managing partners who are themselves appointed by David McDonnell and his executive team. In the past there were no fewer than 28 regional groups.

"This is a huge change of culture," says McDonnell. "In the olden days the leaders of the local offices were very much local champions. They saw the job as representing the interests of their fellow partners in the office. The job specification has changed significantly. Now the office manager is accountable to the regional management partner who in turn is responsible for implementing firm-wide policies and standards at a local level and ensuring that the offices meet their financial targets."

■ The next step is to tighten up the quality of staff and clients. Deloitte Haskins and Sells, one of the UK's largest firms and now in the throes of a merger with Coopers and Lybrand, went through this process in the wake of its failure to merge with Price Waterhouse in 1984. Since then, says managing partner Alan McFetrich, the firm has shed £5m-£10m of unprofitable turnover and encouraged 70 partners out of a total of 260 to depart. The partnership has expanded by a net ten people to 270 since then, reflecting an infusion of new blood.

Hugh Aldous at Robson Rhodes talks in gleeful terms of a "dross drop" programme. "We went through a computer print-out of all our clients and identified hundreds we didn't want," he says. Five offices have been closed since 1987 and a number of partners have been encouraged to leave.

■ The imposition of financial controls. Venture capitalists which lend to the firms often lament that accountants have no idea how to keep their own books in order. Over the past few years firms have followed their corporate clients and introduced formal budgeting procedures. Performance targets – measured in terms of chargeable hours per person – have been established for each category of employee. Targets have been set for recovering outstanding debts, and cash flow is subject to scrupulous monitoring. Clear chains of financial accountability have been put in place.

Many of the firms have recruited finance directors from industry to oversee the tasks, a trend which extends to other disciplines, such as marketing.

It is clear that there are problems in the move towards a professionally managed practice, as McDonnell recognises. "The big challenge for the firm is to balance central authority over partners with the need to have motivated entrepreneurial advisers in all our offices," he says. The process for the Big Six firms is easier, he maintains, "because the audit environment encourages deference to the head office."

"The changes have gone through so fast that many partners have seen no impact on their day-to-day business," says David Norton, managing partner of Grant Thornton's Leeds office. "Of course there is scepticism in the provinces."

Accountants will be able to turn themselves into limited companies at the beginning of 1991. By then, many firms will be already be companies in all but name.

Offering a lease on Soviet trade

Kevin Brown explains why TIP has taken a route through Finland

How do you get started in a country where there is little concept of marketing, property law or enforceable contracts, and where knowledge of western languages is far from widespread? This is the conundrum facing any company wishing to take advantage of perestroika in the Soviet Union, a development which offers the tempting prospect of access to an almost untapped market of more than 280m people.

TIP Europe, the Anglo-Dutch trailer leasing group, has just signed an agreement which offers some pointers:

■ First, it helps to start small, so that the Soviets can get to know you gradually. The TIP deal is for just eight trailers leased for five years, following an earlier agreement to lease five trailers for five years. But TIP is the first western company to crack this particular market, and should be well placed to pick up more business later, especially since transport equipment is one of the areas which will have to be modernised rapidly.

"This is really just the tip of the iceberg, which is why we are so excited about it," says Tony Rieger, TIP's chief executive, and the company's principal negotiator with the Soviets.

■ Second, work with someone who already knows the Soviet market. TIP made its approach through Finland, where awareness of the Soviet Union is very high, but companies operate in a capitalist environment. The key move was to acquire the leasing interests of Narko, the Finnish trailer manufacturer, which gave TIP market leadership in Finland, and considerable clout with local transport companies dealing regularly with the USSR.

■ Third, remember that the Soviet Union is a federation, that decentralisation is a crucial element of perestroika, and that some of the republics are more progressive than others. TIP entered the market through Estonia, one of the Baltic republics where economic and political change is most advanced, and one of the areas most used to dealing with Finnish companies. The leasing deal was signed with company which is a joint venture between the local Estonian state-owned transport company and a group of Finnish companies.

Tony Rieger believes Estonia will remain at the cutting edge of economic change in the Soviet Union because of its proximity to the West. "The interesting thing is the rate at which expansion is going on there, and the way people are positioning themselves to take advantage of the geographical and economic opportunities. We are also talking to other companies based in the western Soviet Union, and we think those will be the areas which will benefit most quickly from liberalisation," he says.

But even in Estonia, there are structural difficulties in getting deals signed. "The biggest problem was getting through to the decision makers," says Rieger. "The size of meetings tended to be very large, with technical people, representatives of the various shareholders, translators – all wanting to have their say."

The business languages used were not Russian and English, but Estonian and Finnish. The contracts also presented a major problem because of the lack of a suitable legal mechanism for enforcement in the Soviet Union. In the end, they were drawn up in Russian and Finnish, and are enforceable in Finland. The Finnish link also helped overcome the problem posed by the Soviet Union's unconvertible currency – the deal will be billed in Finnish Marks earned through the joint venture company's activities in Finland.

In the long run, the Soviet Union will have to develop a system of contract law, independent courts and a convertible currency if it is to reap the full benefit of foreign investment, says Rieger. But TIP's experience was that there was a tremendous desire for change. "We were cautious because we didn't want to launch into something which was not going to make any money. We didn't want to do something which would mean us providing all the cash and it then going down a black hole. But we did detect a great willingness to find a structure which would be suitable."

LEGAL COLUMN

Making a mockery of extradition procedures

By Robert Rice, Legal Correspondent

MR LORRAIN Osman, the banker, has been receiving considerable publicity recently for his plight as Britain's longest-serving remand prisoner.

Mr Osman, who is 57, Malaysian, and the former chairman of Bumiputra Malaysia Finance – a Hong Kong subsidiary of the Malaysian bank, Bank Bumiputra – has been in Pentonville prison for four years, during which he has resisted attempts by the Hong Kong Government to have him extradited on charges arising out of his alleged involvement in the Carrian affair.

In many cases there would be strong grounds for releasing him on bail, pending the final determination of extradition proceedings. However, the Hong Kong Government appears to have equally strong grounds for believing that Mr Osman would flee to the Liberian Embassy in London if he was released. His claim to diplomatic status in the Republic of Liberia is just one of the more bizarre elements in this increasingly complicated saga, which now deserves some explanation.

The reason he is still on remand after 1,455 days is that he is taking every opportunity to prevent his return to Hong Kong. The scandal is not that he should do so (it is not hard to understand his reluctance to return) but that the system should allow it to happen.

The facts of the Carrian affair, and the collapse in 1983 of the largely fictitious Hong Kong property group with debts of more than £700m are by now well documented.

The allegations against Mr Osman are broadly that between 1979 and 1982, he was personally responsible for the disbursement loan by BMF of US$800m (£513m) to Mr George Tan's Carrian group "contrary to all normal banking rules and with total disregard for the interests of the finance company, its parent bank, its depositors and creditors." In return, it is alleged, Mr Tan, through Carrian, made over about £12m to Mr Osman.

Mr Osman is charged with 11 offences of conspiracy to defraud, 11 offences of conspiracy to steal, seven of corruption, eight of theft and six of false accounting.

He was arrested in London in December 1985, after the issue of warrants in Hong Kong. In May 1986, after further warrants and a second extradition request from the Governor of Hong Kong, extradition proceedings began at Bow Street Magistrates' Court in London. The hearing lasted 66 working days – the longest ever of its kind. Final submissions on Mr Osman's behalf lasted 17 days alone.

On June 1 the following year he was finally committed to prison on all charges to await the Foreign Secretary's order for his return to Hong Kong. Ten days later, he launched his first application for a writ of habeas corpus.

The writ attacked the committal order of June 1 on a number of grounds, including insufficiency of evidence and lack of jurisdiction in the Hong Kong courts. His application did not come before the High Court until February 1988, when it lasted 19 days. The application was refused, and the court also refused him leave to appeal to the House of Lords against its decision.

Meanwhile, back in July 1987 he had applied *ex parte* to the High Court of Hong Kong for judicial review of the Governor of Hong Kong's request for his extradition. The application was made on the ground that if he was returned to Hong Kong and convicted, he would still be in prison in 1997 when the dependency reverted to China and that he should not be expected to suffer imprisonment in the People's Republic. That application rumbled on for more than 12 months and was not finally disposed of by the Judicial Committee of the Privy Council – as Hong Kong's final court of appeal – until October 1988.

In June 1988, Mr Osman was granted leave by the High Court to bring a second application for a writ of habeas corpus, on the grounds of diplomatic immunity and abuse of process.

His diplomatic immunity claim was based on three diplomatic notes from the Liberian Embassy to the effect that he had been appointed its special roving ambassador to the EC because of his knowledge of Liberian commercial affairs. He further claimed that the Liberian Government had notified the Foreign Office of his diplomatic status in October 1986, just before his arrest.

The abuse-of-process claim was based on alleged irregularities in the obtaining of the initial warrants in Hong Kong, which he said showed evidence of bias against him and a conspiracy to get him back to Hong Kong at all costs.

After three requests by Mr Osman to adjourn this second application, it was finally heard by the High Court in November 1988. In December, it was refused. The court ruled that he had not been properly accredited by the Foreign Office as a Liberian diplomat nor properly appointed by Liberia. So in January this year, he applied to the court for leave to appeal to the House of Lords against that decision. Leave was refused.

In February, he applied directly to the House of Lords for leave to appeal against the refusal of the second application. That petition for leave to appeal is still pending.

In March, the European Commission of Human Rights rejected a complaint by Mr Osman against the UK. In April, the Liberian Embassy submitted a further diplomatic note "reconfirming" Mr Osman's diplomatic status and protesting at his continued detention.

Together with a further attack on the way in which the original warrants were issued in Hong Kong, that formed the basis of a third habeas corpus application made in June.

It was that application that the High Court rejected 10 days ago but only on the abuse of process points. The court did not deal with the diplomatic status issue, because it is still the subject of the application for leave to appeal to the House of Lords – arising out of the second habeas corpus application.

No date has yet been set for the House of Lords to hear his petition for leave to appeal the second application. In May Mr Osman applied for it to be adjourned indefinitely. No appeal has yet been launched against the refusal of the third application.

City solicitors Macfarlanes, who are acting for the Hong Kong Government, can only wait and see what happens next. The firm could apply on its client's behalf to have the petition for leave on the second application struck out. On the other hand, they argue that there is a case for giving him leave so that the matter can be dealt with by the House of Lords once and for all.

At the earliest, it is going to be next summer before the House of Lords can hear such an appeal. Meanwhile, Mr Osman has two further applications before the courts in Malaysia, which challenge the 1985 orders of the High Court of Malaya that allowed evidence to be collected against him in Malaysia.

If he should win either application in Malaysia, it is almost certain that he will make a further application to the High Court in London on the basis that all the evidence collected in Malaysia was collected unlawfully and was therefore inadmissible in the original UK committal proceedings.

The saga could run on for another two years.

By then, Mr Osman will have been on remand for six years. No doubt if it keeps him out of Hong Kong he will not mind too much, but it makes a mockery of the system and the procedures of the Fugitive Offenders Act. It should not be forgotten that the act was introduced because it was thought appropriate to have simplified extradition arrangements between the UK and countries with systems of justice based on our own common-law tradition.

LAW SOCIETIES ADMISSIONS 15th NOVEMBER 1989

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LEGAL APPOINTMENTS

LAW SOCIETIES ADMISSIONS 15th NOVEMBER 1989

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ARCHITECTURE

A cry for Spitalfields

"A cry goes up from the city streets, where wounded men lie groaning." Why did these words from the Book of Job leap into my mind when I contemplated the new proposals that were recently announced for the redevelopment of acres of London to the east of the City? Surprisingly, it is not the sad muddle of London's Docklands that prompted these thoughts but the two major plans that have been prepared for Spitalfields Market and the redevelopment of Bishopsgate Goods Yard and Brick Lane.

Spitalfields is already a name that will have a place in the history of British urban development. It is a paradigm of the problems of planning. Spitalfields borders the eastern edge of the City and edges on the rapidly changing area of Docklands. It has always been home to successive waves of new immigrants. The Great Mosque in Fournier Street encapsulates the history of the neighbourhood in one building; it was built in 1743 as a chapel for the Huguenot silk weavers; from 1809 to 1819 it was occupied by the London Society for Promoting Christianity among the Jews; and from 1819 to 1897 it was a Wesleyan chapel. After the great wave of Jewish immigrants arrived from eastern Europe at the end of the 19th century, the chapel became the Great Synagogue of the Machzike Hadath Community; and in 1976 it became the mosque for the new arrivals from Bangladesh – Spitalfields now has the highest concentration of Bangladeshis of any city in Britain.

Today the area faces unique pressure. In a new book, *Spitalfields: A Battle for Land*, by Charlie Forman (Hilary Shipman, £7.95) the current position is described as though Spitalfields was the new Beirut. "The war for the land is coming from almost all sides. One front is trying to push up from Docklands, another is spreading out from the City, and a third is trying to force a corridor down the Liverpool Street railway line by way of Bishopsgate Goods Yard. Against enormous odds, Spitalfields will end the 1980's with a larger and stronger working-class community living in better housing than it had ten years before. But the enemy has renewed strength, and the odds against Spitalfields in the 1990's are greater than ever." This is an emotive, powerful book written by a man who has seen and tried to tackle the dreadful housing conditions of the area.

It is not possible to look at the redevelopment of this part of London simply as an architectural exercise.

There are two major schemes in the pipeline. In October the *Spitalfields* Development Group submitted planning applications to the London Borough of Tower Hamlets for revised proposals for comprehensive redevelopment of the 12 acres of land which is largely occupied at present by the Spitalfields fruit, flower and vegetable market. Royal Assent is expected before the end of the year for the Bill to allow traders to move to a new market at Temple Mills.

For any developer, this area offers an incredible opportunity to enhance the eastern fringes of the City. The Spitalfields Development Group is a consortium of Balfour Beatty Developments Ltd, County and District Properties Ltd, and the London and Edinburgh Trust plc. Mr Peter Beckwith of LET plc has great ambitions for his plans. He wrote in December last year to one of his many architects that he felt that the area offers the chance "to produce the very best mixed use scheme in Europe, if not the world."

There have been six schemes produced for the site in the past four years. The current comprehensive proposals are prepared by an American firm of architects, Swanke Hayden Connell, now operating in London; they are best known for the design of the Trump Tower on Fifth Avenue in New York. An earlier scheme, of much more subtlety and ingenuity – but many fewer offices – was prepared by the British practice, MacCormac Jamieson and Prichard, but this has now been abandoned.

The American proposals are for 1.9m sq ft of new building of which 1.1m is proposed to be for commercial use. There will only be 118 "units" of social housing and 35 flats for sale. While Swanke Hayden Connell are the principal architects, the developers have given the fringe housing to more interesting practices – Colquhoun and Miller, Burrell Foley and *Ian Ritchie. A Spanish sculptor/engineer*, Santiago Calatrava will advise on the roof vaulting of the shopping Galleria.

Spitalfields demands a more sensitive scheme than this one. It is quite wrong for one firm of very dull commercial architects to design so much of the scheme. Whatever the good intentions of the developers to secure mixed uses, these proposals as they stand are architecturally mediocre. They are a tragic insult to a part of London that offers such an opportunity for a high density redevelopment that should be a real slice of the city.

The second major scheme, a redevelopment of 25 acres around the former Bishopsgate Goods Yard and Truman's Brewery in Brick Lane, is also the responsibility of London and Edinburgh Trust plc – working this time with the British Rail Property Board and Grand Metropolitan plc. The approach here seems much more promising, with something of a pioneering effort to form a partnership with the local community to create an urban village to be developed by a Community Development Trust.

A bizarre new tower that threatens to rise up above the Eastern fringes of the City close to Spitalfields, by architects Covell Matthews Wheatley

The unhappy element in the scheme is once again the quality of the proposed architecture. The intention to concentrate commercial development, which in theory "pays" for the community benefits, in a giant tower of offices has a crude logic. But it is the design that is so disturbing. Architects Covell Matthews Wheatley have produced a kind of space fantasy to accommodate some 1.3m sq ft of offices. This bizarre looking monster overlooks the "community" development and transport improvements like a terrifying godfather. Is this the only way we can achieve the basic improvements for the entire community?

Both these Spitalfields schemes have undoubtedly tried to balance the commercial and community pressures. You can see how the developers and architects have struggled, but they look as though they are in danger of seriously failing on the architectural front. The architecture betrays all the signs of over development in an area that needs nurture and beauty more than most. The urban and ethnic richness of this part of London has been ignored by the architects, who have designed buildings that belong only in an architectural limbo.

Colin Amery

Vanek Plays and Adam and Eve

SOHO POLY AND GATE

With barely distinguishable programmes, each prominently advertising the other, two more chips off the old bloc arrive on the London stage – five, if you count Vaclav Havel's three short Vanek plays as separate entities. Both Havel and the Russian dramatist Mikhail Bulgakov have suffered the slings and arrows of official censorship. But, whereas Bulgakov's *Adam and Eve* has had to wait more than half a century for this tatty world premiere at The Gate, Notting Hill, Havel's thumbnail sketches of Czech conformity, in all its various guises, make their return to London on a tide of fashionable sympathy.

The Vanek of his plays is more a device than a character – *a quiet, right-minded* conduit for the neuroses and hypocrisies of his countrymen, who has been used by a scattering of Czech playwrights.

The first of Havel's Vanek plays, *Audience* was written in 1975 for a social gathering at a time when Havel himself had been working in a brewery. It pops up his observations of the working man and relays them through an audience between a drunken and maudlin brewery head man and a non-drinking, self-effacing Vanek, a temporary worker under suspicion because he is also a playwright. In the second play, *Protest* Vanek's interlocutor is a cowardly media man, who fluently and fraudulently argues himself out of signing a petition of protest. The third – and weakest – ridicules the Prague yuppie.

Peter Casterton, founder-director of the European Stage Company, has opted for a strongly idiomatic characterisation: the TV tycoon (John Peters) sports designer specs and worn corduroys while the brewery overseer is a belligerent Irishman. Both work well on their own terms, although the use of such clearly recognisable characteristics has its problems. The Irishness of Seamus Newham's overseer calls on a cultural awareness which I suspect has more to do with our attitudes to boozy Irishmen than with Havel's attitude to the working classes.

Tom Kilght, as Vanek in all three plays, has the right sort of anonymity - a hint of sympathy for the worker, a hint of scorn for the intellectual, and a hint of embarrassment at the neurotic coziness of his yuppie friends in *Private View*. The three plays will be presented in rotation, at Soho Poly, two per evening.

The Vanek plays are not vintage Havel, but neither is *Adam and Eve* classic Bulgakov. Written in 1931 and not surprisingly banned by the Russian military, this is a bold, apocalyptic fantasy of science and ideology combined wreak the destruction of mankind. *Adam, an upright young* lion of the revolution, and his wife, Eve, a language student, are among a handful of survivors of a gas war which annihilates the rest of civilisation during the first act.

With them is a militarist zealot, a forgetful scientist to whose inventive powers to whom they owe their survival, a bad novelist, forever eulogising "the fresh pink cheeks of collectivised peasant women" and a prototype capitalist with a gangrenous foot, who maintains that "as long as two people are left on earth, dollars will have a value."

Far from going forth and multiplying like good children of the revolution, Adam and Eve (David Drysdale and Sarah Keyzor) find their positions irreconcilable. He spends his time awaiting news of victory, while she discovers that the philanthropist genius of the scientist means more to her than communism. Bulgakov's critique of Stalinism has a curiosity value which scores some relevant points in Michael Glenny's lively translation. But his revolutionary types are too obvious and the portrayal of them too amateurish in Stuart Wood's production to stimulate any more than a forensic interest.

Claire Armitstead

Boulez

FESTIVAL HALL

Thursday night's BBC Symphony Orchestra concert could easily have come from that golden age when Pierre Boulez was its principal conductor and modernism seemed to stretch in a single unbroken line from Debussy and Stravinsky to Boulez and Stockhausen and beyond. Now we know better, or rather worse. The concert began with Stravinsky's little *Zvezdoliki* and Debussy's Nocturnes – sounding suaver now that they would 20 years ago, the textures more integrated, the colours less distinct – and continued with Messiaen and Boulez himself.

La Ville d'en-haut is the latest sliver of Messiaen to reach London, an eight-minute exchange for piano (Yvonne Loriod in this performance) and ensemble in which a familiar gallery of bird songs is set against brass chorales and lambent melodies. The intention is the familiar devotional one, but the material endlessly recycled now has lost its freshness and bite.

Boulez's *Le Soleil des eaux* has become relatively familiar in its most recent (1965) and seemingly final revision; sung here by Phyllis Bryn-Julson and the BBC Singers it seemed again a model of concision, intense, gem-like in its tonal purity and hardness, a vivid response to René Char's texts.

Le Visage nuptial has by contrast had a far less chequered history, even by the standards of Boulez's output. It was begun, again to poems by Char in 1946; a first version was ready by 1951, but not performed until 1957, and then the score disappeared, to be disinterred in the 1980s when Boulez set about wholesale revision. This was the British premiere of the revised version.

It is still an elaborate conception, though the two ondes martenot and quarter-tone writing of the original have disappeared; the soprano and mezzo soloists (Bryn-Julson and the unfailingly impressive Elizabeth Laurence) are enmeshed in a tangle of choral and orchestral lines from which kernels of lyrical expression are allowed to emerge; the chattering delivery of the chorus in the fourth section "Evadné", and the sensuous presentation of the poem in the last are the most striking passages. But despite its miscalculations (and for all Boulez's rescoring the central pivotal movement remains fugitive and unwieldy) it carries even now a powerful, knife-edge tension, a sense of a composer straining his creative muscles to the utmost, of pushing audiences and performers to the limits of their comprehension in the certain knowledge that there are special rewards to be gained there.

Andrew Clements

Christa Ludwig

QUEEN ELIZABETH HALL

When Lotte Lehmann was giving her farewell recitals in the 1950s, Christa Ludwig was already embarking on her singing career. Together with Fischer-Dieskau and a handful of others, this mezzo has been one of the enduring giants of the post-war musical scene, on whose shoulders the tradition of German singing has been borne with dignity and entire reliability. It is remarkable to think that she has probably been active for 35 years or so. At her recital on Thursday the voice was quite unchanged from what we can hear on early recordings. It is still warm and absolutely steady, but perhaps has a new contralto richness in the lowest notes, which she displayed proudly in the low keys she had chosen for the one work on her programme – Schubert's *Die Winterreise*, the cycle which Lehmann once appropriated as her own.

No singer of any musical sensibility could use this work as a vehicle for showmanship, but even so Ludwig is extreme in her refusal to make it entertaining. She simply lets the songs unfold at her own very measured pace and a minimum of verbal inflection and colouring does the rest, with the help of an accompanist, Charles Spencer, in whom she enjoys total accord. This was the winter journey as of some great linear proceeding majestically through frozen waters.

The performance could hardly have provided a greater contrast to that of Brigitte Fassbaender, the other female singer in recent years to have taken on what has generally been regarded as a man's cycle. Fassbaender is swept headlong by the songs' most active emotions, of hurt, of bitterness and determination. After that it takes time to adjust to the studied Ludwig, who reflects little of the work's external contact with nature and raw feeling.

For her, as she suggested in her own programme note, this great song cycle is the journey of the inner soul. Her mission is simply to sing it as well as possible and with a heartfelt, deeply serious, understanding of the poetry that will communicate to those who are prepared to listen. Many artists have the ambition to sing Schubert this way, but only a few would dare.

Richard Fairman

Another Bruckner 6th

BARBICAN HALL

When did we last have two London performances of Bruckner's knotty Sixth Symphony within five weeks? Lothar Zagrosek undertook the work with the BBC Symphony last month; and on Thursday the London Symphony showed their paces in it under Michael Tilson Thomas. Again there was a healthy audience, though perhaps enticed this time by the appearance of Maria Ewing. She is one of nature's Dorabellas (*Cosí fan tutte*) but it was no more surprising to find her delivering Fiordiligi's arias than Tilson Thomas expounding Bruckner.

Miss Ewing invested "Come scoglio" and "Per pietà" with scant irony, but much dramatic intensity and commanding volume. Amidst the fearful range-hopping Mozart required of his heroine, her basically mezzo voice became several voices; in full cry her effects were rivetting, though in pianissimo the vocal colour drained away, for all her delicacy with *fioriture*. The Mozartean challenge of sustaining an unbroken expressive line was perforce shifted to her histrionic skill, which is formidable. *No doubt she could succeed in* making a good fist of Aida or Norma or Erda, too, but one still wishes she wouldn't try.

Tilson Thomas had begun the concert with a beautifully balanced account of Brahms's hoary "Haydn" Variations, neither over-hearty nor too silken, but thoughtful and warmly sonorous. There were similar virtues in his Bruckner Sixth – speedy, but less hard-pressed than most of Zagrosek's. The abiding impression was of a craggy landscape in primary colours: too simple a palette for this involuted symphony, and too easily dominated by the (excellent) LSO brass.

Between the clamorous highs and the palpitating lows, whole areas of more complex feeling were dispatched rather plainly. No single passage came anywhere near Zagrosek's subtlest and best-realised insights. Yet, as saving virtues go – they do presuppose something that needs rescuing! – I thought Tilson Thomas's grasp of Bruckner's symphonic profile and broad proportions quite admirable, and quite satisfying as far as it went. Any early prospect of a Tilson Thomas Eighth or Ninth, however, would strike the heart with the same dismaying thud as a Ewing Isolde: please, not yet.

David Murray

Felicity Lott

WIGMORE HALL

It is a special honour for an English-speaking singer to be accepted as an interpreter of French music across the Channel and Felicity Lott is one of the few artists to have been accorded such recognition in recent years.

Both in operatic appearances in Paris and Brussels and in recitals, she has been welcomed as a valued guest.

It helps that she graduated in French and reviews in French journals usually pay respect to her accomplishment in the language, even if they cannot help pointing out that a native French speaker would get more out of the words.

The balance is a fine one and it was reflected in the recital that the singer gave with Graham Johnson at the Wigmore Hall on Saturday, featuring an all-French programme with favourite songs by Fauré, Bizet and Debussy.

Apologies were made at the outset that singer and pianist both had bad colds. But there was little to show it in the singing, other than perhaps a shortage of firm tone lower down.

This was "Flott" as lambent of voice as ever, shaping Faure's "Soir" and Debussy's "C'est l'extase" with a sensuous silkiness of line.

She is fortunate, too, that in Johnson she has an accompanist who will provide the discipline (no rallentandos!) this music needs.

What was lacking was any deeper interpretative impulse. With the exception of a small group of songs by Roussel, where the singer got to grips more actively with the words, one composer sounded much like another, each song as ravishingly beautiful as the one on either side.

Contrary to popular belief, there is scope for more in a programme of French *mélodies*, as one can find by sampling almost any recital disc by Gérard Souzay or Pierre Bernac.

This was not, however, the *occasion for sounding ungrateful*.

The audience had been given a full programme, when it might have had none at all, and enough vocal beauty to fill half a dozen recitals by most other performers.

The encores, a selection of French light opera numbers by Messager and Oscar Straus, favourites of any admirer of Crespin, will have ensured that nobody left the hall at all unhappy.

Richard Fairman

ARTS GUIDE November 24-30

MUSIC

London

The London Philharmonic *conducted by Sir Georg Solti*. Shostakovich, Tchaikovsky. Royal Festival Hall (Tues) (928 8800).
Vienna Philharmonic Orchestra conducted by André Previn. Haydn, Strauss, Dvorak. Royal Festival Hall (Thur) (928 8800).

Paris

Quatuor Suk. Schumann, Gagneux, Dvorak (Mon). Salle Gaveau (45632030).
Orchestre Colonne conducted by Carla-Maria Tarditi with the Colonne Orchestra's choir, *Arley Reece*, soloist. Berlioz, Roussel, Franck (Mon). Salle Pleyel (45638873).
Dimitri Bashkirov, piano. Schubert, Liszt, Brahms (Tue). SalleGaveau (45632030).
Orchestre de Paris conducted by Kent Nagano, with Nobuko Imai. Debussy, Takemitsu, Bartok (Wed, Thur). Salle Pleyel (45630796).
Barry Douglas, piano. Beethoven, Shostakovich, Berg, Liszt (Thur). Salle Gaveau (45632030).

Amsterdam

Cleo Laine and John Dankworth with the Metropole Orchestra. Concertgebouw (Tues) (718 345).

Milan

Amadeus Piano Trio: Norbert Brainin, (violin), Martin Lovett, ('cello) and Arnaldo Cohen, (piano). Mozart, Beethoven and Brahms (Wed) (76001755). Conservatorio G. Verdi.

Rome

Michael's Reise: Chamber version of Second Act of Karlheinz Stockhausen's opera *Donnerstag aus Licht*, conducted by the composer (Wed). Teatro Olimpico (393304).

Frankfurt

Frankfurt Radio Orchestra conducted by Raymond Leppard. Britten, Schumann and Sibelius (Thur). Alte Oper.

Vienna

Wiener Streicherensemble conducted by Marie-Louise Oschatz. Stravinsky, Bach, Schoenberg (Mon).
Wiener Schubert Trio. Mozart, Schumann. Musikverein (Tues).
Hans Kann, piano, plays Mozart at the Konzerthaus. (Wed).
Andrej Gavrilov, piano. Schumann, Schubert. Musikverein. (Thurs).

Madrid

Die Deutschen Bach-Vocalisten and the Collegium Aureum, conducted by Gerhard Weinberger. Bach (Thur). Auditorio Nacional de Musica (337 01 00).

New York

New York Philharmonic, conducted by Zubin Mehta, with Fiona Simon, Yoko Takeva, Charles Rex (violins) and Warren *Deck (tuba)*. *Vivaldi, Nielsen*, Kellaway, Sibelius (Tue); and conducted by Giuseppe Sinopoli, with Bruno Cercchio. Ravel, Mussorgsky-Ravel (Thur). Avery Fisher Hall (874 6770).
Shanghai Quartet. Heydn, Shostakovich, Beethoven (Thur). Alice Tully Hall Lincoln Center (874 6770).

Washington

Academy of St Martins in the Fields conducted by Sir Neville Marriner. Berlioz, R. Strauss, Copland, Schumann (Wed). Kennedy Center Concert Hall (467 4600).
National Symphony Orchestra *conducted by Gary Bertini* with Rudolf Buchbinder (piano). Beethoven, Berlioz (Thur). Kennedy Center Concert Hall (467 4600).

Chicago

Chicago Symphony Orchestra conducted by Neeme Jarvi. Part, Scriabin, Mussorgsky (Tue); and conducted by Gennady Rozhdestvensky. Shostakovich programme (Thur). Orchestra Hall (435 6666).

Tokyo

Prague Symphony Orchestra conducted by Jiri Belohlavek. Schubert, Tchaikovsky. Suntory Hall (Mon, Tues) (561 5012, 334 7207).
I Musici. Albinoni, Vivaldi, Giordani (Wed); Vivaldi (Thur). Bunkamura, Orchard Hall (403 8011).
Tatiyana Shebanova (piano). Beethoven, Chopin, Satie. Tokyo Bunka Kaikan (Wed) (265 6361).
Leipzig Gewandhaus Orchestra conducted by Kurt Masur, with *Annerose Schmidt* (piano). Beethoven. Suntory Hall (Thur) (505 1010).
Traditional Japanese Music. Shakuhachi (bamboo flute) solos. ABC Hall, Shiba Koen (Thur) (436 0430).

The Cult

WEMBLEY ARENA

What makes the Cult different from a myriad other heavy metal thrash bands?

Their hair is regulatory length - long enough when shaken to totally hide pallid complexions; their lead singer Ian Asthury spits and swears with precision, constantly checks his crutch to ensure that he's all there, and spends the requisite amount of time on his knees making love to the mike stand; the guitar and bass players wander aimlessly around the stage like inquisitive lion cubs, pausing occasionally to rub backs; the clothes are leather; the lighting dazzles; and the music is loud enough to ensure an early deafness allowance.

What's the sizzle that packed Wembley for two nights over the week end ?

The attraction of the Cult is that they are basically a pop band born at the wrong time. A decade ago any hopeful young provincial musician was indoctrinated into punk. Then the progression was usually into some form of heavy metal.

The Cult took the Gothic route, wrapping their music around Tolkien mythology.

Slowly they are returning to the real world and in a couple of years time they will probably discard the red Iron Cross that still decorates the drum kit and become an out and out rock group.

For the momant, though, they have achieved the dream of all record industry moghuls – a cross over band that appeals to many market segments.

Asthury has already mastered the line " Are you ready for a little rock and roll?", and then the Cult is off and playing the mainstream pop music of two decades.

The give away is that guitarist Billy Duffy actually dares to play solos, and very good they are, too. The Cult has a discipline and ability to flesh out the music which is rare in a genre where image and noise is all. The mix of total rock out with fairly discernible melodies makes the Cult a band you can sing along to as well as shake along, too.

And Astbury, while on the beefy side, obviously pulls in the girls, who were present in numbers quite out of order for a regular heavy metal bash among the lads.

By the time the Cult got down to their anthem, and, let's face, it *pop chart hit*, "She sells sanctuary", Wembley (much improved these days) was its usual stomping, fist clenching, body bending, brain blown, self.

Band and fans had very happily, individually and severally, got off, and it was time to fade away.

Antony Thorncroft

FINANCIAL TIMES

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Monday November 27 1989

All together, now

THE SCENES in Prague over the weekend are ones that Europe has been waiting for the last 21 years.

Of all the countries subjugated by Soviet power after the Second World War, Czechoslovakia was closest to the heart of Europe, literally and figuratively. Sacrificed to Hitler by the western powers in 1938, it was in 1945 spontaneously and genuinely pro-Soviet. But in 1948 Stalin insisted on its subjection to the same monolithic and brutal version of communist rule as the rest of eastern Europe. At the time, his Czech followers faithfully implemented his instructions, though many soon found themselves among the victims. But the Party retained enough life in it to be able, in 1968, to reflect society's desire for change.

Just how far that change would have gone in the direction of full multi-party democracy we shall never know, but in the climate of those times Czechoslovakia would probably have remained in some sense socialist, and the reforming Communists might well have retained power even in a free vote. In any case, the country's external alignment with the Soviet Union was never questioned. The suppression of the "Prague Spring" by Soviet tanks was thus all the more offensive for being a gratuitous attack on Czechoslovakia as a whole, including its Communist Party, which had afterwards to be purged from top to bottom. The resulting regime has governed Czechoslovakia for 20 years without a shred of legitimacy even by communist standards, and no semblance of popular support.

Unstoppable momentum

Now at last it is ending. The events of the last few days follow a pattern now happily familiar, and clearly reflect an unstoppable momentum. In Czechoslovakia as in East Germany, the opposition is not yet organised, and the problems of economic restructuring are formidable to say the least. But a Peking-style "Tienanmen Square solution" can now be ruled out, and there is no other way the situation can be stabilised except by conceding free elections. The reappearance of Mr Alexander Dubcek, the reforming Communist leader of 1968, is a heartening symbol and he might be an appropriate head of state in the new regime. Whether today's Czechs and Slovaks are still ready to support "socialism," even with a human face, is much more doubtful. The choice, in any case, must be for them alone to make.

A process of sweeping political change is now under way in all five of the genuine Soviet satellite states of eastern Europe (the Romanian dictator having shrewdly extracted himself from that status, with western encouragement, back in the 1960s). There must be some safety in those numbers. Whatever pitfalls lie ahead for Mr Gorbachev at home, the likelihood of any Soviet leadership using military force to overthrow five east European governments is surely remote.

Warsaw Pact

Even more so, now, is the prospect of a Warsaw Pact offensive against western Europe. That is a political reality of which the US, struggling to reduce its budget deficit without increasing taxation, is bound to take account. But Nato still exists, and must remain in existence at least until the new politico-military shape of eastern Europe and the Soviet Union is fully clear. That will be some time yet, and during that time Nato's members must continue to behave like good allies, reducing their forces only by agreement and in response to changes on the other side, whether these are negotiated or unilateral.

The process of political change in eastern Europe can be more safely managed if the Warsaw Pact too remains in existence, with its present membership if not its present structure, during this transitional period. That implies keeping the two German states separate for the same period, since one state could hardly belong to both alliances. But that in turn is a reason why the period should clearly be understood to be transitional, since in the last resort the people of each European state (and in particular the people of East Germany) must be free to decide which alliance, if any, it wishes to belong to.

Meanwhile, the prospect of reforming governments throughout eastern Europe opens the way to real economic co-operation among them. Western aid, which must remain conditional on genuine political and economic reforms, now has the chance to act as a catalyst of east European unity, overcoming the dangers of resurgent nationalism, just as Marshall Aid did for west European unity in the late 1940s. All Europeans, east and west, should get together as soon as possible to work out ways of promoting the cause of freedom in Romania and Albania, since those two European peoples are now the only ones prevented from speaking for themselves.

India votes for change

THE INDIAN electorate, half a billion strong in the world's largest democracy, has voted for change and against corruption.

The general election appears to leave all parties short of a working majority. But the voters' message has been unmistakeably clear: it expects politicians, in return for the power vested in them, to remain honest and to root out the corruption which is in danger of becoming endemic at all levels of official Indian life.

That was the message in 1984. Mr Rajiv Gandhi was swept to power with a landslide victory, partly on a wave of sympathy following the assassination of his mother, Mrs Indira Gandhi, by Sikh extremists, but mainly because of his convincing claim that he would fulfil the role of Mr Clean. Government corruption, principally the Bofors arms scandal, has sullied that image.

The electorate has come to this year's poll with the same message. The results again show clearly that voters will not condone corruption and will vote out those it holds responsible in both national or state governments.

Congress

It is for this reason that Mr Gandhi and his Congress Party have not fared as badly as they feared, although they have suffered the humiliating loss of about half their support since 1984. Congress was the opposition party in most southern state governments and therefore benefited as the voters rejected the parties in power. In the electorally more important north, the reverse was the case and Congress has suffered badly.

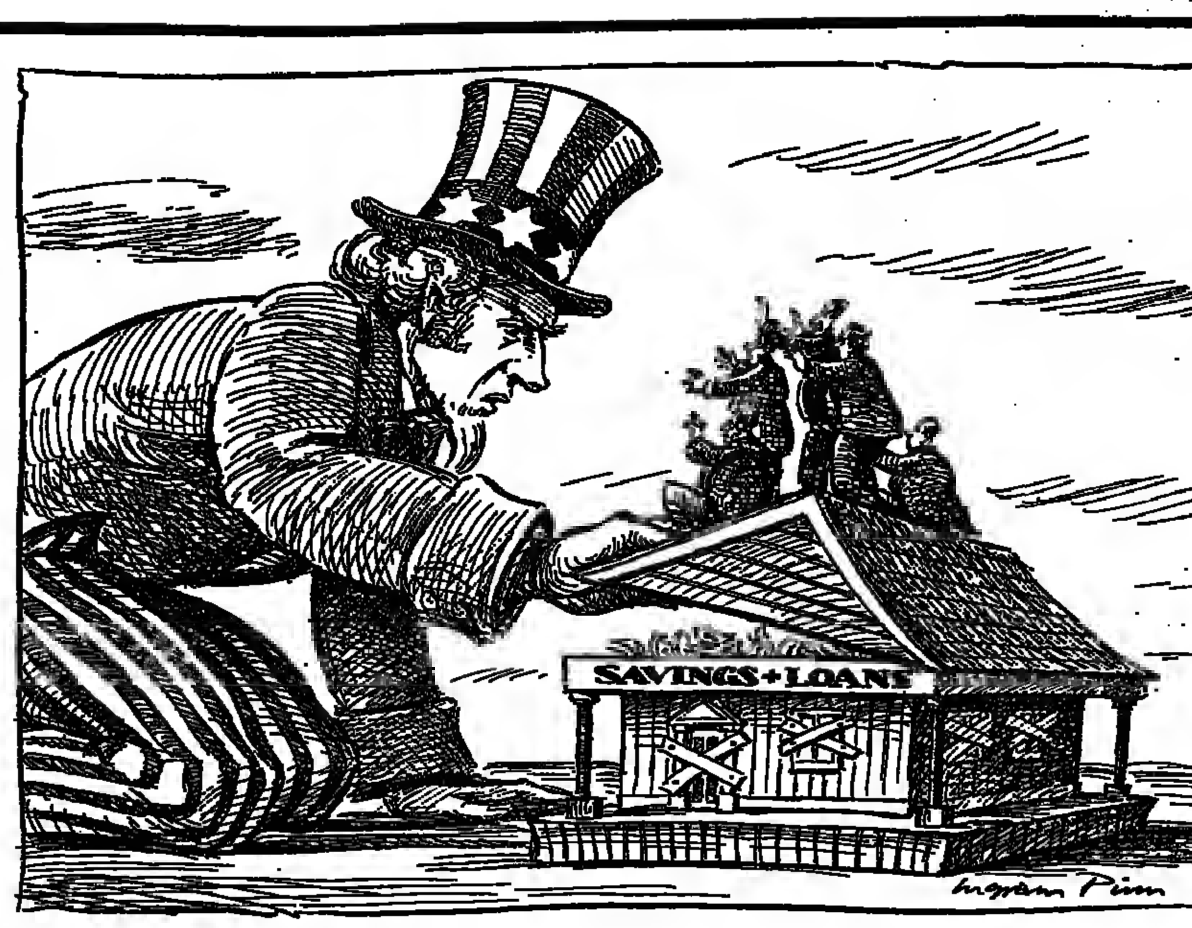
The new Mr Clean is Mr V.P. Singh, a modest man whose integrity remains unquestioned. He was a former close ally of Mr Gandhi and served as an exceptionally able finance minister. He quit the Cabinet and went into opposition because of high-level government corruption.

The success of his National front coalition of five parties, while a personal triumph, provides the most complicated possible result for India: a hung parliament. Mr Gandhi would appear to have little chance of forming a government as minority party support is unlikely. But Mr Singh would need external help to secure an overall majority. The obvious choices are the Bharatiya Janata Party, a right-wing Hindu fundamentalist party, and the Marxist Communist Party of India. Each has done well in the poll and insists it will not serve with the other in a coalition government.

Horse trading

Clearly there is much horse trading to be done once the final results are known. If, for example, Congress were to split, with some factions joining Mr Singh, the chances of a broad moderate coalition government would be enhanced. Mr Gandhi's personal position will not become clear for some time. He seems temperamentally unsuited to opposition and his party may prove unforgiving if Congress is not involved in government.

Whatever happens, democracy has proved itself again in India. In spite of the violence and ballot rigging, both of which have reached disgraceful levels, the majority of Indians have abided by the rules and then used their ballots to change the balances of power. They may have ended the Gandhi dynasty's hold on government and with it the cult of the individual which has plagued Indian politics for decades. The fact that difficult compromises will now be needed to form a new government is by no means the worst outcome for Indian democracy.



Peter Riddell looks at a banking scandal which has turned into a big political issue

Lifting the veil on dependence

MR Charles Keating was unusually reticent last week when he appeared on Capitol Hill. He was due to testify to the House Banking Committee about the collapse of his Lincoln Savings and Loan mortgage and property lending group at a cost to US taxpayers of $2bn (£1.28bn) to $2.5bn. But he refused to answer questions, invoking his constitutional Fifth Amendment rights against self-incrimination, as well as his right not to be photographed or broadcast.

Mr Keating faces a battery of legal actions and inquiries, including a $1.1bn racketeering and fraud suit. In the past, however, Mr Keating has been more voluble. He has boasted of his high-placed friends and contacts. He was appointed by President Nixon to an anti-pornography commission; was the final campaign manager for former Treasury Secretary John Connally's disastrous presidential bid; employed current Federal Reserve chairman Alan Greenspan as a consultant; met White House Chief of Staff Donald Regan to urge the appointment of an associate to the main savings and loan regulatory board; and, most significant of all, donated or raised nearly $1.4m for five US senators.

Earlier this year, Mr Keating said that when asked whether his "financial support in any way influenced several political figures to take up my cause, I want to say in the most forceful way I can: I certainly hope so."

The Lincoln saga is only part of the much larger story of the collapse and rescue of much of the savings and loans industry, officially put at $164bn, but more likely to be $250bn to $300bn. Lincoln has become a national scandal because it has lifted the veil on the mutual dependence between businessmen and politicians – the search of the former for access and influence and the need of the latter for large sums of money for election campaigns, and especially television advertising spots. Senators now have to raise an average of $12,000 a week for their six-yearly re-election campaigns.

Savings and loans – known as thrifts – occupied the same role as building societies in Britain in financing house purchase by raising small-scale deposits. But there were two key differences. First, savings and loans have independent shareholders like ordinary companies, rather than being depositor-owned, as they have been Britain. This allowed takeovers hy operators such as Mr Keating.

Second, mnch of the thrifts' lending was ou long-term fixed interest mortgages. While there was also a limit on the interest paid on deposits, savings and loans were increasingly handicapped during the 1970s by the rise in interest rates. So in 1980 the cap on interest payments on deposits was lifted, and in 1982 savings and loans were allowed to diversify away from low yielding mortgages into direct investments such as property developments and land, as well as high return junk bonds.

This led to an extraordinary period in the early-to-mid 1980s as a wide variety of husinessmen bought up savings and loans and expanded them rapidly, notably in Texas and California. On the deposit side, brokers put together packages of up to the $100,000 limit of Federal deposit insurance – an open-ended schema which was inadequately funded and, with lax regulation, provided no discipline. On the asset side, the new owners became active in risky property developments and junk bonds.

Mr Keating was at home in this world. He had a cbequered history, having signed a consent decree with the Securities and Exchange Commission in 1979 (neither admitting nor denying liahility) over an alleged fraud. This background did not prevent him, as it would now, from buying Lincoln in 1984. He expanded its operations into currency futures, junk bonds, large areas of undeveloped land and property developments. Mr Keating soon had problems with regulators. Mr Edwin Gray, then chairman of the Federal Home Loan Bank Board, tried to limit the amount of direct investment which savings and loans could make.

Mr Keating tried, and failed, to seek exemption from this change – including commissioning Mr Alan Greenspan, then an economic consultant, to produce a report in early 1985 on the case for higher direct investment. Mr Greenspan's report praised Lincoln's management as "seasoned and expert" with "a record of outstanding success." Mr Greenspan, now Fed chairman, has expressed surprise and regret at what has since happened.

Throughont this period Mr Keating built up political contacts – disbursing money to a wide variety of local and national politicians. But the bulk went to the five US senators listed in the table. These were not just arm's length donations; Mr Keating travelled together to the Bahamas with then Representative (and now Senator) John McCain from his main base of Arizona. McCain has subsequently repaid the cost of the airfares. Mr Keating also organised a large fund-raising event in 1987 for Senator Donald Riegle of Michigan, since last January the chairman of the Senate Banking Committee.

Mr Keating and his associates raised big sums for Democratic Senators John Glenn of Ohio (the former astronant), Alan Cranston of California and Dennis DeConcini of Arizona. Either Lincoln or Mr Keating had a connection with their states.

Political friends in the right place became increasingly important as he came under closer scrutiny. Regulators, particularly in San Francisco, suspected Lincoln of being $600m over the direct investment limit and of lending without proper appraisals. In spring 1987, Lincoln not only sued the regulators bnt also mobilised the recipients of his campaign contributions.

The five Senators

(Contributions made directly or raised by Keating and associates)

Dennis DeConcini (Dem, Ariz): received $48,000; later said he would return the money.

Alan Cranston (Dem, Cal): received $39,000 directly, plus $850,000 for political groups controlled by him and $85,000 for California Democrats.

John Glenn (Dem, Ohio): received $34,000 in campaign contributions; an *action committee associated* with him received $200,000.

John McCain (Rep, Ariz): received $112,000 directly; has paid back $13,400 for flights to Bahamas with his family.

Donald Riegle (Dem, Mich): received $76,000, later returned.

On April 2 and 9, 1987, there were two meetings with the regulators in the office of Senator DeConcini. Senator Riegle did not attend the first, the second included all five. At the first, Mr Gray of the Federal Home Loan Bank Board alleges that a relaxation of tha direct investment rule for Lincoln was demanded. He says the senators tried "to subvert the regulatory process for their wealthy friend and contributor." The senators insist they were only seeking information on why the Lincoln inquiry by the regulators was taking so long. At the second meeting, Senator DeConcini allegedly outlined Lincoln's proposals for resolving the problem, while regulators from San Francisco described the thrift as a "ticking time bomb." Senators McCain and Glenn were then recorded as saying they wanted no special favours.

Despite these appeals, the San Francisco regulators pressed for Mr Keating to be removed and for Lincoln to be taken over. However, the board's head office in Washington was reluctant to take such a drastic move, arguing that the local regulators had not made out a sufficient case. After further reviews under Mr Danny Wall, who replaced Mr Gray as chairman, no direct action against Lincoln was taken. Indeed, after considerable friction with San Francisco, the Washington head office acquired responsibility for Lincoln in May 1988. It was only last April that Lincoln was taken over with large losses on risky investments, as well as allegations that money (possibly up to $100m) was illegally taken out of Lincoln by Mr Keating and his associates.

There is a further twist to the story. The Securities and Exchange Commission also became interested in the activities of American Continental, Lincoln's parent, but found its inquiries hampered not only by Mr Keating but also by the accountancy firm Arthur Young (now merged into Ernst and Young). Mr Richard Breeden, the chairman of the SEC, has claimed that Arthur Young had been "very unhelpful, very unforthcoming and very unco-operative in any shape, way or form."

Another accountancy firm brought in by the regulators claims that Arthur Young approved accounts which substantially overstated profits, possibly by up to $135m. Arthur Young, which parted from Lincoln in October 1988, denies these charges. Mr Jack Atchison, the Arthur Young partner responsible for the audits, joined American Continental in early 1988 at a salary of over $930,000. He has refused to testify before the House Banking Committee.

The overall impact of these delays, whatever their cause, between spring 1987 and the Federal takeover last April is estimated to have added $1bn to the cost of the rescue. In this period American Continental also sold $200m of now almost worthless bonds (not protected by Federal insurance) via Lincoln outlets. The blame for the slow response lies in a combination of feuding and indecisiveness by the regulators, reinforced by the refusal of top levels of the administration or Congress to take an interest in Lincoln's increasingly obvious problems. The actions of the five senators in April 1987, and of Senator DeConcini subsequently in talks with the regulators, reinforced, rather than created, these mistakes.

The collapse of Lincoln, and subsequent revelations of the role of the five Senators and of the regulators, is now a big political issue. Over the past six weeks a series of charges have been made at hearings held by Representative Henry Gonzalez. His main target is Mr Wall and why he delayed closing Lincoln. Mr Wall emerged battered, and defiant, from the 7½ hour hearing last Tuesday when Mr Keating refused to testify. The White House has already distanced itself from Mr Wall, who heads the Office of Thrift Supervision, the new regulator set up under this year's reorganisation of the thrift industry.

Representative Jim Leach, a knowledgable Republican member of the committee, commented that if the allegations were true, "Charles Keating is a financiopath of obscene proportions – the Rev Jim Bakker of American commerce – given license to steal by a bank board headed by the Neville Chamberlain of financial regulation, a cheerleader who saw little evil and thus spoke little truth."

The five senators have captured the headlines because of their number and their prominence. All have denied wrongdoing, claiming they were merely performing a service for a constituent (albeit in several different states). The Senate Ethics Committee has appointed independent counsel to see whether there are grounds for further inquiry.

But whether or not the senators have broken the Senate's rules is almost beside the point. The significant qnestion is that the meetings took place at all and were regarded as normal by the senators. Money may not buy decisions, but it does buy access to legislators, and thus to regulators.

This mix of money and politics is also reflected in the president's use of ambassadorships to reward large campaign donors with no foreign experience. Similarly, there have been allegations that low income housing programmes were exploited during the Reagan era to benefit prominent Republicans and donors.

The affair of Mr Keating and the five Senators may just be a footnote in the whole sorry savings and loans saga, but it could also be a spur to reform of the campaign finance laws to limit special interest contributions which Congressional leaders plan to push next year. A favourite Washington saying is that what is wrong with American politics is not what is illegal hut what is regarded as legal and normal.

OBSERVER

Japanese in Brussels

■ To Belgium at the weekend to learn about Japan – or rather Japanese art. There is a collection of exhibitions all over the country with much of the best of what the Japanese have to offer, and the Belgians are flocking in. On Saturday afternoon in Brussels there were queues for the exhibition on Japanese Buddhism.

The overall title is Europalia 89: Japan in Belgium. Europalia is a mixture of Europe, obviously, and *opalia*, the Latin term for the harvest festival. The Belgians have been putting on these shows every two years or so since 1969 when they started with Italy.

The idea is that you invite another country to send its treasures to Belgium for around three months and the local population absorbs them in increasing numbers. There were over 1.6m visitors to the exhibitions on Austria two years ago.

Japan was the breakthrough. Hitherto, all the exhibiting countries had been European. The Japanese agreed to come not because of Belgium, but because of Brussels, which is a kind of magic word to them. That is where a lot of them think that power lies in Europe. Out of total costs of around Y1hn, the Japanese Government put up around two-thirds. There were also subsidies from companies such as Honda, which has a large distribnting base in Belgium.

Stick to golf

■ The General Commissioner responsible for getting the Japanese programme under way is Jscques Groothaert, a former diplomat whn has been chairman of Générale de Banque since 1980. Grootheart was Ambassador in China and was one of the last Westerners to talk to Mao Zedong before he died. He says that Mao could hardly speak, but insisted on going through all the formalities of receiving foreign emissaries.

The Chinese rather liked Groothaert and were always inviting him. This year, however, he resigned from all his posts on Sino-Belgian and Sino-European organisations as soon as the troops went into Tiananmen Square. Anyway, it was for his Asian knowledge, as well as for his many other international contacts, that he was given the Japan show.

He says he found the Japanese quite difficult to persuade at first. It was largely the Brussels tag that did it. Also, the Japanese only wanted to send classical work – nothing modern or controversial – and they wanted the pieces back as soon as possible. The Buddhist exhibitions could run much longer, Groothaert claims, if the Japanese would let tbem.

Groothaert was also warned not to expect the Japanese in Europe to come to the exhibitions. When the Japanese abroad are not working, they play golf, he was told. And that seems to be true. Some Belgians take great pride in attracting the Japanese colony in Düsseldorf to Belgian rather than German golf courses at weekends, though a sizeable number of Japanese did turn up at the Bunraku puppet theatre at the Théâtre National, followed by a saki party, on Saturday evening.

Video art

■ As it happens, some of the modern work which the Belgians did manage to secure is immensely impressive. There is a young artist called Yasumasa Morimura on show in Gent who is plainly fascinated hy western inflnences – the Impressionists, van Gogh, modern Americans, the lot. He tends to take a

"Don't even think of it, Ted."

well-known self-portrait and turn it into one of himself, often by using photographs as well as paint. One day I suspect his work will command a lot of money.

The Japanese are much less embarrassed at being crazy about video. This has become an art form itself. In Antwerp there is a model of a Japanese miniature garden, but instead of stepping stones, it is paved with miniature Sony videos all showing different moving pictures. Another favourite is to hang about 15 synchronized videos on a wall, and indeed some Japanese artists now seem to compose direct onto the video screen.

Columbus next

■ The next Europalia in 1991 will feature Portugal. That is not quite such a tame idea as it sounds after Japan. The year 1992 will contain a notahle 500th anniversary – Columbus's discovery of America. The Belgians have secured Portuguese support for getting in with the first of the major exhibitions. After that, the aim is the Soviet Union, although the arrangements are still tentative.

British past

■ There was a British Europalia in Belgium 1973 – the year Britain joined the European Community – and some grand old British names behind it: Lord Drogheda, Sir Charles Villiers, Sir Francis Sandilands and Lord Stokes. Sir John Beith, the British Ambassador to Belgium, wrote that it was "the largest single British cultural event ever mounted outside the UK".

I looked back at the programme and was impressed by the range: an evening with Sir John Betjeman, the Laureate, and another evening of protest poetry. Lord Annan lectured in French on the British University System and Sir Frederick Dainton, the chairman of the University Grants Committee, also in French, on Science and Society.

A very special British show was called For a Total Environment – "A major exhibition covering the vital problems of clean air, water, the transformation of mining regions and the preservation of historic buildings." It was arranged by the Department of the Environment. Those were the days when Britain was ahead of the times.

No joke

■ Sadly, there do not appear any jokes in Belgium any more, at least outside the European Commission, which was closed. The Belgians go about their business, looking very prosperous, on the way to overcoming their linguistic problems, and visiting exhibitions. In some parts of the country they even have access to 25 different television channels. Even Mrs Thatcher was shocked to hear that when told by the Belgian Ambassador. So today there is, I am afraid, no tailpiece.

ECONOMIC VIEWPOINT

Look at sterling, not trade figures

By Samuel Brittan

One of the silliest canards being flown is that it would be sensible to repeat next year the British policy mix of 1981, when an unexpectedly tight Budget in a recession, which led to the famous protest by 364 economists, was also followed by an easing of interest rates and a fall in sterling.

The one similarity with 1981 is the combination of high interest rates and pressures towards recession. But the differences are very much greater. In 1981 the Budget was still in heavy structural deficit and a strong policy pointer towards long-run balance was required. Now however the Budget is showing a surplus and any required long-run correction could be in the opposite direction.

A more important difference is that, just before the 1981 Budget, sterling had overshot upwards. Once British industry had received its salutary shock, the main need was to bring the pound down to levels with which business could live.

Today the opposite danger prevails. The biggest threat to economic policy comes from the alarmingly downward drift of sterling; and it is this that ought to be the focus of attention rather than the balance of payments.

Sterling has been on a worrying course since the last rise in base rates to 15 per cent on October 5, in the wake of a Bundesbank increase, failed to steady the currency. It was, in fact, reasonably stable immediately afterwards, but was fatally undermined by undenied weekend reports that the Prime Minister and/or Sir Alan Walters were *opposed* to any *further* action to prevent the pound falling.

The following week, that of the Conservative Party conference, when I was mercifully in America, sterling went below Nigel Lawson's preferred DM 3 level. After he resigned his enemies were delighted to report that sterling had stabilised in a slightly lower range. Alas for the British economy, their triumph was shortlived, as sterling has since been approaching the DM 2.80 level. For a year ahead it is quoted at well below DM 2.70.

Even these rates would be tolerable, though undesirable, if there was some intention to stabilise the pound there, perhaps in conjunction with full EMS membership in the second half of 1990. It would mean that inflation would take longer to converge on European Community levels, and there would be gyrations; but converge it eventually would.

The really frightening prospect is of sterling continuing to sag with no end in sight as high expected depreciation, high interest rates and high inflation join together in a self-reinforcing circle.

Nor has the decline been only against the D-Mark. Despite the dollar's recent weakness, sterling has also been weak against the Bank of England Index and is now near the low point reached in the winter of 1986-87 (after the rebound from the oil price drop and before the run up to the last election). Virtually all the ground gained since has been subsequently lost.

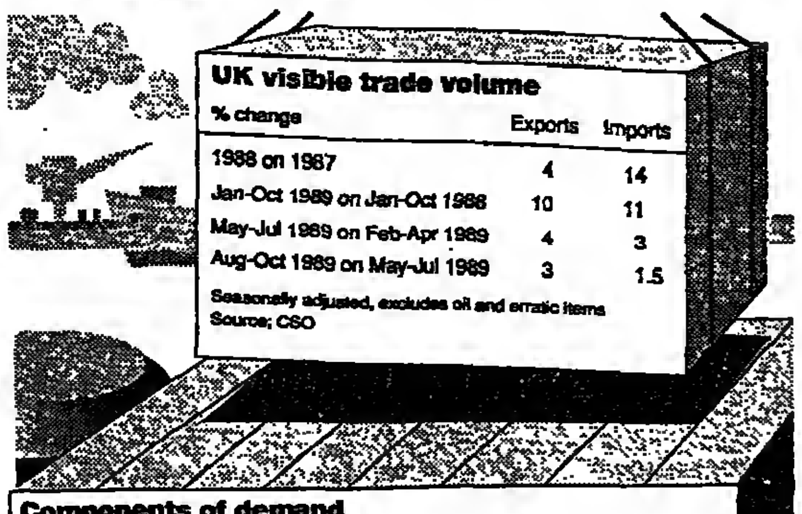
The political uncertainties about the Prime Minister's position and the *next election are said* to be *an adverse* factor. But the pound is hardly helped when Mrs Thatcher in her interview with The Times last Friday once more dismisses any idea of interest rate policy being influenced by a concern for the exchange rate. Nor is it helped when she offers fulsome and unqualified praise for Sir Alan Walters, despite the latter's scarcely concealed advocacy of lower sterling and lower interest rates. She obviously did prefer Sir Alan to her own Chancellor.

But it can hardly be a good thing that sterling should have *fallen* further after a recorded trade deficit lower than market analysts had expected. Some self-proclaimed Government sympathisers see the clue to election victory in a tough fiscal policy in 1990 followed by 18 months of *falling* interest rates, *even* at the expense of sinking sterling. This could work in the very crude sense that falling mortgage rates distort headline inflation rates downwards (just as rising rates distort them upwards). The inflationary effects of falling sterling are more fundamental, but may be delayed until after an election.

What this pretty little theory leaves out is the possibility of a sterling downturn getting out of hand. Politically, the Government cannot be sure of fooling enough of the people enough of the time to win by such cosmetics. As a gentle reminder, the basic inflation rate, excluding mortgage interest – now 6.1 per cent – will feature regularly in this column, together with an estimate of the underlying trend.

Meanwhile, the October trade figures did not add much to one's knowledge of the British economy. But just to continue my regular teenager's guide: they confirmed – in conjunction with the figures of earlier months – that the current account deficit for 1989 would be around the £20bn predicted by the Treasury. (By the balance of payments, I do not of course mean the true figures or even a best guess, but the estimates published by the Statistical Office with a £15bn unallocated balancing item).

The differences with 1981, when a tough Budget helped interest rates fall, are greater than the similarities



UK visible trade volume

% change	Exports	Imports
1988 on 1987	4	14
Jan-Oct 1989 on Jan-Oct 1988	10	11
May-Jul 1989 on Feb-Apr 1989	4	3
Aug-Oct 1989 on May-Jul 1989	3	1.5

Seasonally adjusted, excludes oil and erratic items
Source: CSO

Components of demand
Constant (1985) prices

As % of GDP	Average 1965-79	1979	1986	1989	Change 79-89	Change 86-89
Personal consumption	59.1	59.0	62.3	65.3	+6.3	+3.0
Government consumption	21.6	21.2	20.5	18.8	-2.4	-1.7
Fixed investment	18.4	17.1	16.7	19.9	+2.8	+3.2
Stockbuilding	0.7	1.0	0.2	0.8	-0.2	+0.6
Balance of trade in goods and services	0.3	1.5	0.3	-4.7	-6.2	-5.0
Domestic savings	*19.3*	*18.8*	*17.2*	*15.9*	*-3.9*	*-1.3*

Source: London Business School

All one can say beyond that is that the current deficit is somewhere between level pegging and on a slightly improving trend. The best indicator (in the top table) is the one which shows volume changes, excluding oil and other erratic items. In the first 10 months of the year, imports rose very slightly more than exports. But in the shorter period since the Easter quarter, the quarterly growth of exports has been somewhat higher.

Professor Wynne Godley has objected to my saying on the basis of the figures in the Autumn Statement that the current deficit reflects rising investment, partly financed from overseas, rather than falling savings. (Letters to the Editor, November 21.) Readers are entitled to ask why there are such large differences on apparently factual matters.

One reason is simply that of periods compared. My comparison was with 1986, the last year of recorded current account balance, while Professor Godley's was with 1979 and earlier years. The latter comparison is appropriate if one is appraising the Thatcher Government's record (as I have attempted to do in my chapter in The Thatcher Effect, edited by Kavanagh and Seldon, published this year by OUP). The former is more relevant if one is examining the swing into deficit.

Another difference is that I looked at so-called nominal magnitudes (that is actual cash) while Godley looked at constant price estimates. Although I do have a preference for nominal magnitudes, especially when discussing financial policy, the main reason *for my procedure* is that official estimates for savings are published in nominal terms. Estimates of consumption, which is the difference between income and savings (and which Godley prefers to use) are usually published in constant prices. A third difference, *less important in practice, is* that I have used estimates for 1989 rather than forecasts for 1990.

But to meet Godley more than half way, I am including a table at constant 1985 prices, specially prepared by the London Business School. I should add that in this sort of table the balance of payments deficit is overstated because it does not include overseas interest, profits, and dividends which have fluctuated between ¼ and 1¼ per cent of GDP.

The table *does* show that, of the 5 percentage points deterioration in the current balances between 1986 and 1989, some 1.3 points are due to a fall in domestic savings, but more than 3.7 points are due to increased investment and stock-building (rounding *downwards for consistency*). If one looks at nominal magnitudes instead, there is little change in the savings ratio and a smaller trade deterioration. But on either basis savings are much higher than most commentators, who forget about the corporate *and public sector contributions, and* only look at personal savings, assume.

Another reason, however, why the fall in the savings ratio is so modest is that the rise in personal consumption has been partly offset by a fall in government consumption. Whatever the political pros and cons, the picture remains one of an investment boom financed by overseas borrowing.

If that is all that has happened, where does the inflationary threat come from? It cannot be seen from a table of percentages. It arises basically from a growth in demand and output too great for the economy's capacity, which has taken the level of labour and capacity utilisation above the so-called natural rates consistent with non-accelerating inflation.

The important question is whether the level of interest rates required to finance the current deficit is excessive for inflation control purposes. Up to now it has not been. But how do we escape from a circle of high expected inflation, large expected sterling depreciation, and high nominal interest rates? To secure a more virtuous circle of lower inflation, smaller expected depreciation, and lower nominal interest rates, would require some shock to the system. In the absence of Japanese style flexibility in the labour market, the possible shocks are a severe 1980-81 type recession or some official indication of a floor to sterling, to which the Prime Minister seems resolutely opposed.

But even if she were induced by an unexpected display of Cabinet virility to change her mind, interest rates would remain intermittently high until credibility was restored. The more likely prospect at present is little beneficial shock of any kind, a modest recession, if one occurs at all, and a continuing inflation differential above competitor countries.

LOMBARD

An explosive recipe

By Michael Prowse

MR KENNETH CLARKE, Britain's Health Secretary, last week hailed the National Health Service Bill as one of the most important milestones in the development of the NHS. It is perhaps better regarded as a *messy compromise* which will alienate potential supporters of the Government without resolving fundamental health care dilemmas.

The legislation is supposedly a response to the 1987-88 *funding crisis,* which led to a politically embarrassing spate of ward closures. Mrs Thatcher managed to defuse the crisis only by promising a far-reaching review of the financing of the NHS. Yet neither February's *white* paper nor last week's bill addresses this crucial issue. Mr Clarke's line is that financial worries are over because he won a respectable increase in this year's public expenditure round.

This *really will not* do. Rising aspirations, improvements in medical technology, and the ageing of the population are likely to cause steep increases in the demand for health care. Yet the Government remains committed to reducing the burden of taxation as a share of gross domestic product. This circle will prove desperately hard to square in anything but the short term.

There are two possible solutions. Right-wingers argue that the supply/demand imbalance can be corrected only if the public sector stops rationing health care. On this view, individuals must accept responsibility for deciding how much they wish to spend on health. The NHS should thus be privatised and replaced by a regulated private health insurance market. Subsidies would ensure that everybody could afford a basic level of care; those with means who wanted something better would have to pay for it. The crucial point is that there would be no overall cap on spending.

Critics on the left regard private insurance as inhumane and inefficient. But they are not uniformly content with existing budgetary arrangements. The solution increasingly favoured in Labour Party circles is some form of earmarking of NHS revenue. It would be possible, for example, to finance health care either through national insurance contributions or a specific income-related health levy. The advantage would be that revenue, instead of barely *keeping pace with price rises,* would then automatically increase in line with earnings.

Paradoxically, Mr Clarke's bill, while seeking value for money, is likely to accentuate resource constraints and increase pressure for radical changes in the *financing* of the NHS. The development of an internal market will necessitate heavy expenditure on new staff, information technology and billing systems. Most countries with competitive delivery systems spend a much higher proportion of GDP on health care than the UK and this is partially a reflection of higher administration costs.

Behavioural changes will be *more important. In the past,* health authorities and hospitals have been allocated budgets and expected to maximise health care subject to their cash constraints. The absence of significant competition has helped hold costs down. Salaries have been abnormally low by international standards precisely because hospitals have not had to bid against each other for highly qualified medical staff. The health service has also been able to economise on non-medical items: compare NHS dowdiness with the opulence of US hospitals.

In a competitive regime the culture will be very different. Marketing and advertising will become crucial tools for generating business. Since income will depend on turnover, you can be sure the amount of treatment provided will rise steeply. The phenomenon of "supplier-induced demand" is a well documented feature of market regimes and is unlikely to be effectively countered by health authorities' new role as purchasing agents. Some of the strain may be lifted by an expansion of the small private health care market. But this does not alter the fact that Mr Clarke is greatly stimulating the demand for health care without relaxing its financing constraints. This is likely to prove an explosive recipe.

LETTERS

Chambers' status

From Mr Eric Dodson.

Sir, Mr Anthony Platt argues fully and convincingly for public law status for British chambers of commerce (November 7).

I and others, during our periods of service in the chamber movement, have long advocated this; my experience in visiting European chambers of commerce is the same as that related by Mr Platt. Indeed, I found it uncomfortable to try to explain to their officers the reason for our apparent feebleness. I continually had the impression that the UK Government resisted all attempts to achieve public law status by an expressed reluctance, as a matter of principle, to introduce any degree of compulsion.

Perhaps repetition *of* the arguments will eventually produce some result by the time of the assumed completion of the internal market.

But, before then, consideration should again be given to *extending* the activities of British chambers, initially even on a voluntary basis – for example, by registering particulars of partnership and individual businesses; a most useful procedure for the protection of the public which was lost with the ill-judged repeal of the Business Names Act.

Eric H. Dodson,
The Knoll,
Ladythorn Crescent,
Bramhall, Cheshire

London loses out

From Mr Stephen Moss.

Sir, Mr Tony Travers draws attention (Letters, November 22) to one aspect of how London will lose out under the new Uniform Business Rate (UBR). Other important aspects deserve attention.

UBR revenues go into central Government coffers for redistribution on a basis wholly unconnected with the size of the local business rate base. This removes local authority direct control over expenditure of business rates – and motivation to talk to the business community.

Annual rate rises, capped ungenerously at 20 per cent plus inflation, will encourage yet more companies in London to relocate. Businesses wishing to remain will have an artificial disincentive to growth and mobility imposed upon them by a provision restricting the 20 per cent a year ceiling only to those in occupation at April 1 1990. Businesses moving after that date will instantly pay the full rate of UBR.

What has London done to deserve this treatment?

Stephen Moss,
Kensington & Chelsea
Chamber of Trade & Commerce,
Cromwell Place, SW7

Confidence-building by mail

From Mr S.G. Hannon.

Sir, The Royal Mail has re-introduced Sunday collections because our customers told us they wanted it (Letters, November 18).

The service is a direct response to strong customer demand shown in national surveys, and backed by the Post Office Users' National Council as well as the Union of Communication Workers in a ballot of members. On Sunday November 19, the first day of operation in five districts, volunteer postal staff collected some 155,000 letters – which goes to prove that demand.

But this important investment in improving service is just one of a whole range of measures we are already introducing to boost letter reliability for all our customers, including businesses, throughout the week, for which the Royal Mail is spending £65m in the next 12 months alone:

- Making more first collections by van instead of using postmen on foot, and improving collection arrangements;
- Improving deliveries in areas where we have difficulties in recruiting and retaining staff;
- Improving delivery service on Saturdays;
- Postal Planners, showing best posting times to connect with transport links, which are being delivered to all 24m addresses in the UK;
- Faster direct road links for high volume mail between important districts.

We are confident that these combined measures will continue to build customer confidence in the Royal Mail's ability to give a "decent, uninterrupted service."

S.G. Hannon,
Royal Mail Letters,
33 Grosvenor Place, SW1

'A vague law, applied vaguely'

From Mr Fergus Randolph.

Sir, Peter Montagnon, on *rules of origin (November 22),* gives a good description of a difficult, important area of law in international trade. But some confusion appears to have arisen over the Kyoto convention issue.

The EC's *rules on origin* are encapsulated in council regulation 802/68. These rules came into force on July 1 1968, some six and a half years before the EC became a party to the Kyoto convention and some nine years before the specific rules on origin, contained in an annexe to the Convention, were accepted by the EC.

The council regulation has not been amended by the terms in the convention, and thus it cannot be said that "The EC uses the internationally agreed Kyoto convention when deciding on its origin rules." (It is understandable that your correspondent was under such an impression, given the rather woolly attitude of the European Commission on the subject.) The relationship between council regulation 802/68 and the Kyoto convention has never been made clear. Although the basic definitions of origin are similar, the *criteria used for such determinations* differ markedly.

The European Court of Justice has declared, for example, that one of the criteria used in the Kyoto convention as being determinant of origin cannot be so used under council regulation 802/68. In a recent case before the European Court it was argued that the EC is bound by the Kyoto convention, and must thus change its rules on origin. Judgment has not yet been given.

It is lamentable that the EC, one of the largest trading blocs in the world, has been unable to resolve this question. As Peter Montagnon correctly says, the present situation gives rise to cries of "Protectionism" from third countries; difficult to silence. I hope the proposal put to the Commission on changes to the rules on origin will bear some fruit, and that the ultimate non-tariff barrier of a vague law, applied vaguely, will change.

Fergus Randolph,
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B-1040 Brussels, Belgium

Public purchasing in the EC

From Mr Tasos Bisopoulos.

Sir, Guy de Jonquières's report on public procurement in the EC (November 13) is a comprehensive account of this sector in the European economy, but gives only the view from Brussels, and scant consideration to developments and prospects in each EC country.

The differences in public purchasing among member states is a reality overlooked by the "lawyers's approach" adopted by the Commission. This approach has proved unworkable for 20 years.

Existing differences in structure and attitudes in each country have persuaded public officials and contractors that any honest attempt to open up this market would not be followed by other countries. Furthermore, in the UK there are only 700 large procurement entities which deal with bulk purchases and value for money; in Germany and Italy there are more than 20,000 similar purchasing entities which, being smaller, are free to "buy local," restricting opportunities for firms from other member states. Mrs Thatcher rightly stressed this reality in the recent "Walden interview."

Instead of the Brussels uniform approach, a localised strategy would be more efficient. Commercial incentives for contractors to bid in other states, decentralised bodies which would monitor this area with rewards for those who comply (and punishments for infringements), would build on Commission policy of promoting more information to contractors.

Do we really mean to bring about a prosperous united Europe if we cannot even agree on such simple steps?

Tasos Bisopoulos,
38 Doughty Street, WC1

Healthy wealth

From Mr R.J. Shanks.

Sir, Mr J. Rowden (Letters, November 23) may be right to say that "only healthy economic growth can provide the wealth needed to promote environmental improvement." The word "healthy" is important. So much economic growth and "progress" is unhealthy in environment terms.

R.J. Shanks,
6 Rodney Gardens, Eastcote,
Pinner, Middlesex

FINANCIAL TIMES
Monday November 27 1989

Janet Bush on Wall Street

A lesson for stock analysts

PERHAPS the oddest stock last week was Texas Instruments. On Tuesday, it first slumped on news that the company would take a $55m pre-tax charge in the fourth quarter and that it was planning to cut its workforce by about 1,500 people. Then, mysteriously, the stock jumped to close $1⅛ higher at $31.

The fireworks really started on Wednesday when Texas Instruments jumped $5¼ to $36¼. By then it had been reported in US morning editions that the company had been issued with a Japanese patent which it believed covers "virtually all integrated" circuits made or used in Japan.

Although Texas Instruments was very low key about the whole thing, the community of Wall Street analysts was very excited, judging that the patent could be worth as much as $700m a year in additional revenues. All this is fascinating in itself.

But the way the news insinuated itself into the consciousness of the investment community is a tale in itself. It took an exceedingly long time for Wall Street's army of stock analysts to find out about this dramatic development.

The news first hit the world's financial press overnight on Tuesday, when it appeared on the front page of the Japanese newspaper Nihon Keizai Shimbun. Notwithstanding the fact that most major Wall Street investment banks have offices in Tokyo and presumably read the local business press, the news did not filter into the company's share price until the afternoon session on the New York Stock Exchange – and then only when representatives of Nomura Securities in Tokyo called US analysts to ask them for a judgment about what the potential impact could be.

What is even more surprising was that the patent was actually issued on October 30, fully three weeks before anybody on Wall Street knew about it.

When asked about the story by the Wall Street Journal, Texas Instruments rather sweetly said that they had not announced it because they did not want to "blow their own horn."

In these days of lightning communication and instantaneous transmission of knowledge from Tokyo to Lower Manhattan, it is rather strange that the army of stock analysts at brokerage houses were so slow on the uptake. Or is it?

Analysts have been known to get it wrong on so many occasions that a little slip-up like the one over Texas Instruments should not be particularly surprising.

One of the most celebrated examples of analysts failing to do their job properly was the case of Atlantic Richfield. In 1969, its stock was trading at around $120 a share. Only a year later, it had plunged to $48. The reason for this is that nobody on Wall Street had figured out a crucial error in the design and planning of Atlantic Richfield's Alaska pipeline: the company had not taken into account the migration path of the caribou, which eventually led to a complete redesign of the pipeline.

Mr Tony Hitschler, now head of Brandywine Asset Management, a small Wilmington, Delaware money management concern devoted to investing in stocks with low price/earnings ratios, used the Atlantic Richfield case in an essay in 1980 highlighting one perennial shortcoming in the community of stock analysts.

The 'caribou' eventually visit most stocks, and when they visit one with a very high P/E multiple, the consequences can be drastic. Yet most analysts continue to extrapolate past earnings increases into the future," he wrote.

There is a famous anecdote told on Wall Street about Mr Norton Simon, the wealthy industrialist, who, it is said, sat in his Jensen outside Grauman's Chinese Theatre – one of the most famous movie houses in the world and now called Mann's since it was taken over – on Hollywood Boulevard.

Using a hand-clicker, he counted in the crowds going in to see the movie Star Wars. On the strength of his research, he and his wife bought a large holding of shares in Twentieth Century Fox, which turned out to be an enormously good investment.

Perhaps his hands-on approach to equity research provides a lesson to the army of professional stock analysts on Wall Street and might help them to avoid running into caribou.

Gandhi's Congress faces defeat

By David Housego in New Delhi

INDIA'S Congress Party, led by Prime Minister Rajiv Gandhi, appeared to be heading for defeat last night in a general election that seems likely to herald a period of political instability in the country.

The possibility of defeat cast doubts on the future of Mr Gandhi as party leader and on the Gandhi dynasty which has held power since India's independence from Britain in 1947 with one brief, 29-month interruption in 1977-80. Early trends in the counting of votes suggested that the Congress Party would win about 200 of the 525 seats being contested, compared with the 415 it achieved in a landslide victory in 1984.

Though the Congress would remain the single largest party in the National Assembly, the main opposition parties would hold sufficient seats to block its attempts to form a government.

In Mr Gandhi's own constituency of Amethi in the north, re-polling is to take place today in 97 districts – 10 per cent of the constituency – after the opposition alleged "massive rigging." The local district magistrate and the superintendent of police have both been dismissed.

Opposition representatives claimed last night that the National Front, the group of opposition parties under Mr V.P. Singh, would be in a position to form a government. The Front is likely to emerge as the second largest group in the National Assembly but would need the support of both the Hindu militant BJP party and the Marxists to form a government.

Most observers believe opposition consultations over the coming week would focus on the National Front forming a minority administration with support from the BJP on the right and the Marxists on the left. This has long been seen as the most unstable arrangement that could emerge from the election.

The Congress Party strengthened its position in the south but had major reverses in the north and setbacks in the east and west.

The defeat of opposition-backed state governments in the south and of the Congress at the national level led commentators to describe the election "as a vote for change." In the north Congress was doing badly in the Hindi speaking states of Rajasthan, Madhya Pradesh, Bihar and to a lesser extent Uttar Pradesh.

A surprise was the success of the BJP which is likely to increase its strength in the new Parliament from 2 to over 70. The BJP has been campaigning on a platform of Hindu fundamentalism.

Overall, the swing against the Congress was between 5 and 10 per cent. In the north, the minority Moslem population seems to have shifted against the government as a result of recent Hindu-Moslem clashes over plans to build a Hindu shrine at Ayodhya on the site of a mosque.

The election, staggered over three days since last Wednesday, was accompanied by unprecedented violence in which more than 100 people were killed and by widespread electoral fraud. The Chief Election Commissioner ordered re-polling in 1,124 districts after the first two days of voting.

Background, Page 2; Editorial comment, Page 18

UK seeks £2bn finance to save armaments deal with Saudis

By Andrew Gowers in Riyadh and Victor Mallet in London

THE British Government is making urgent efforts to arrange a bank loan of around £2bn ($3.15bn) to finance continued Saudi Arabian purchases of military equipment under the UK's huge Al-Yamamah defence contract.

The loan, which would be extended by British banks and backed by the UK's Export Credits Guarantee Department, would make up for sizeable Saudi payment shortfalls caused by weak oil prices.

It is not yet clear whether the borrower would be the Kingdom itself or the contractors involved in the project. But observers in Riyadh say a new financing package is now essential for the continuation in its present form of the Al-Yamamah deal, under which Britain agreed to supply Saudi Arabia with 120 Tornado fighter aircraft and a range of other equipment, including jet trainers, minehunters, helicopters and base facilities.

Without such a package or a sharp rise in oil prices, it is likely that deliveries of hardware to Saudi Arabia will be slowed down, and it is even possible that parts of the contract might be cancelled.

The way the issue is resolved will thus be of critical importance for British Aerospace, as lead contractor for Al-Yamamah, and for a number of other UK companies involved in the deal, including Westland and Vosper Thornycroft.

The first Al-Yamamah agreement was initialled in 1985, but it was extended under a new contract last year to become Britain's biggest ever arms deal, with a possible final value well in excess of £15bn.

Difficulties centre on the barter arrangement under which Saudi Arabia is paying for Al-Yamamah with 400,000 barrels a day of oil. The fall in world oil prices in 1985-86 has resulted in a significant mismatch between the value of British deliveries and the flow of cash from the Saudi crude, and an increasing deficit on the project at BAe.

Talks on the problem between the two governments and the companies involved have been going on for many months in considerable secrecy. But the British Government is now understood to be anxious to put new financing arrangements – entailing either a loan or a significant increase in oil liftings – in place by the end of the year.

Mr Alan Thomas, head of defence export sales at Britain's Ministry of Defence, is believed to have pressed the issue when he met Prince Sultan ibn Abdul Aziz, the Saudi Defence Minister, during a visit to Riyadh earlier this month. The Saudi Government has apparently yet to give its response.

"Unless there is a decision by the Saudi Government substantially to increase the amount of oil liftings or to put in place loans of significant value, the provision of additional hardware will slide significantly," said one official.

The amount of Saudi arrears has not been disclosed. But to keep Al-Yamamah on track, it is thought that Riyadh would need to boost its commitment of crude by at least 100,000 b/d, an increase that the Saudis may well find difficult to allow given the current state of the oil market and competing demands for funds from Saudi government departments other than the Ministry of Defence.

In London yesterday, the British Defence Ministry made no direct comment on the issue, saying that the government-to-government arrangements had to be treated in confidence. But Whitehall officials privately acknowledge that financial problems are affecting Al-Yamamah and that Britain may have to slow deliveries as a result.

Defence has 'only small role' in US budget cuts

By Peter Riddell, US Editor, in Washington

THE "peace dividend", the savings in US defence expenditure as a result of the lowering in East/West tensions, will make only a small contribution to reducing the US budget deficit in the immediate future, Mr Richard Darman, the Budget Director, has suggested.

Speaking as the Bush Administration prepares its budget for submission on January 8, Mr Darman warned against expecting early large cuts in defence expenditure. This has big implications for the prospects of cutting the deficit, which is generally regarded as one of the US's economic priorities.

Mr Darman said that in the near term (referring to the 1991 fiscal year starting next October) defence savings were going to be "small, of the order of $10bn, not the kinds of large numbers that people are assuming".

This compares with the $35bn overall cuts which Mr Darman has estimated will be necessary to get down to near the target of a $64bn federal deficit for fiscal 1991, as laid down in the Gramm-Rudman law.

Mr Darman sought to distinguish the limited size of short-term cuts on defence expenditure with the possibility of "substantial savings over five years, though nowhere near as large as people are assuming".

Mr Darman said the Pentagon budget is "very, very slow to change in either direction. If it's going up, it doesn't go up as quickly as people think. If it's coming down, it doesn't come down as quickly as people think".

He discounted recent reports of $150bn and $180bn savings in the early-to-mid 1990s, which, he said, were in relation to Defence Department plans and not in relation to the likely available resources. The implication is that some of the projected cuts might be from planned totals which were anyway unrealistic.

Mr Darman's estimates of defence savings also indicate a tight squeeze on domestic programmes since there is no sign of President George Bush moving from his "no new taxes" pledge. The Budget director claimed that "the odds are higher than 95 per cent that we'll be able to present a budget without new taxes".

There may still be minor revenue adjustments of the type which accounted for two-fifths of the $14.7bn deficit reduction for fiscal 1990 approved by Congress last week.

In an effort to hold down spending, Mr Darman last week proposed setting aside "a limited pool" of money for high priority programmes. Heads of departments and agencies would appear before President Bush to argue their case for a share of this pool.

OECD report on US, Cheney set to brief Nato, Page 3

Czech spirit blooms

Continued from Page 1

night of November 17. Nobody is frightened any more. Nothing is sacred. The taboos are disappearing.

Even the police are speaking out.

During yet another massive meeting on Letenske Plain, a young policeman yesterday asked for understanding from the crowds.

"I was taught to fight criminals, not to beat up peaceful demonstrators," he told the snow-covered tens of thousands.

"We cannot judge what we are doing. It is Them Up There who are giving the orders."

"Who are they? Who are they?" the crowd spontaneously questioned back.

"I don't know. I don't know," the young man replied, completely lost for an answer.

But the crowds knew what they wanted. "Enough of Them! Enough of Them!" And as if they still have to shake off the pent-up anger which had accumulated over the years, many of them proceeded to form a long human chain across to Hradcany.

But they still wanted more. And they will have it today, when the Czech and Slovak nations will stage a general strike.

Mr Adamec, who in a brave gesture, stood on the podium yesterday with Mr Havel and Mr Dubcek, nearly spoilt his entree into public view.

"I am glad that Monday's strike will be a political manifestation and not a confrontation. But there is no need for a two-hour strike. Just a couple of minutes."

The crowd were going to have none of this. Father Vaclav Maly, a long-serving opposition figure who has now been catapulted into the limelight, chastised the Prime Minister.

"We will not use the methods of the Communists to tell the people what to do. Let the strike committees decide," he said. The crowds loved these words, words which would have been unutterable even a week ago.

Britain and Vietnam agree cash deal

Continued from Page 1

such people could be considered humanitarian.

In Hong Kong, there is growing unrest among the boat people in ths camps. This, and protesta against compulaory repatriation, could make it more difficult for the colony's security forces to start repatriation without a violent reaction.

More than 2,000 boat people started to refuse government food supplies at the weekend, although their action falls short of a full hunger strike because they have access to privately supplied food. In a separate development, there was a pitched battle in a tented camp between rival gronps from Viatnam's Haiphong and Quang Ning provinces.

Hong Kong wants to act within two or three weeks so that enough Vietnamese arrive back in their home towns and villages by next spring to deter more boat people from setting out when the waather and tides improve.

Officials fear that at least 30,000 more will arrive hy next summer unless they are put off by the start of a compulsory repatriation programms. Hong Kong's local legislators have said they are not prepared to approve the fresh funds needed for them to be looked after.

Around 35,000 have arrived in the past year, including an unseasonally high total of 335 this month. There are now 44,000 boat people in camps who are heing screened to determine if they are genuine refugees qualifying for resettlement or are economic migrants who, under a Hong Kong policy introduced 17 mooths ago, should be sent home.

Judging from the results of 6,000 people screened so far, only about 10 per cent will qualify as refugees, which means that ahout 40,000 are due to go home. So far only 500 have been voluntarily repatriated.

Hong Kong has agreed terms for ths compulsory repatriation with Vietnam.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	–	–	–	Dubrovnik	C	8	46	Malta	F	21	70	Rhodes	S	19	66
Algiers	S	24	75	Edinburgh	S	4	39	Manchester	S	1	34	Rio de J'o	C	29	84
Amsterdam	C	7	45	Faro	R	17	63	Manila	C	32	90	Rome	S	12	54
Athens	C	18	64	Florence	S	6	43	Melbourne	S	21	70	Salzburg	S	-2	28
Bahrain	S	26	79	Frankfurt	C	-1	30	Mexico City	–	–	–	San Francisco	S	10	50
Bangkok	–	–	–	Funchal	F	20	68	Miami	C	23	73	Seoul	F	12	54
Barcelona	Dr	13	55	Geneva	C	-1	30	Milan	S	6	43	Singapore	–	–	–
Beirut	–	–	–	Gibraltar	R	17	63	Montreal	Sn	-5	23	Stockholm	F	-2	28
Belfast	Fg	-1	30	Glasgow	S	7	45	Moscow	S	-13	9	Strasbourg	S	0	32
Belgrade	C	-2	28	Guernsey	S	6	43	Munich	S	-1	30	Sydney	C	16	61
Berlin	C	3	37	Helsinki	Sn	0	32	Nairobi	C	23	73	Taipei	F	22	72
Biarritz	C	10	50	H. Kong	–	–	–	Naples	71	F	54	Tangier	R	21	70
Bombay	S	30	91	Innsbruck	S	-2	28	Nassau	–	–	–	Tel Aviv	S	23	73
Bordeaux	S	6	43	Inverness	C	7	45	New Delhi	S	22	72	Tenerife	F	17	63
Brussels	S	3	37	Islamabad	F	20	68	New York	R	6	43	Tokyo	S	16	61
Budapest	S	-1	30	Istanbul	R	5	41	Nice	S	14	57	Toronto	C	2	36
B Aires	F	27	81	Jakarta	–	–	–	Nicosia	F	23	73	Tunis	F	17	63
Cairo	S	25	77	Jersey	S	5	41	Oporto	F	19	66	Valencia	R	15	59
Cape Town	S	23	73	Jo'burg	F	23	73	Oslo	F	1	34	Venice	S	5	41
Caracas	C	25	77	Lima	C	23	73	Paris	S	1	34	Vienna	C	0	32
Casablanca	R	19	66	Lisbon	R	15	59	Peking	S	12	54	Warsaw	S	-5	23
Chicago	S	-2	28	London	S	5	41	Prague	Sn	-4	25	Washington	C	7	45
Cologne	S	3	37	Los Angeles	R	14	57	Reykjavik	Dr	2	36	Zurich	S	-3	27
Copenhagen	S	5	41	Luxembourg	S	1	34								
Corfu	F	15	59	Madrid	R	11	52								
Dallas	C	11	52	Majorca	C	18	64								
Dublin	S	4	39	Malaga	C	17	63								

Readings at mid-day yesterday

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Finance chief set to quit

Continued from Page 1

new mandate next March when his current term runs out.

Mr Pierson, who has been one of the principal architects of the recent commercial successes of the aircraft group, appears so far not to have made up his mind whether to seek a new term or not.

Should he decide to leave, the consortium is likely to face further upheaval in the form of a a new power struggls between the four partners.

The four partners decided to givs the go-ahead for tbe new A-321 at an extended meeting in Frankfurt which ended last Saturday. The consortium was widely expected to launch the new programme before the end of this month.

Airbus has already secured 107 firm orders for the A-321, which costs abont $45m per aircraft, and additional commitments for 74 more aircrafts.

The gronp originally said it needed at least 40 firm orders to launch the nsw programme.

Airbus said yesterday it was now finalising with various banks the details of ths funding for the A-321 programme.

THE LEX COLUMN

Deciphering gold's mixed signals

The financial markets are rightly puzzled by the confusing signals coming out of the gold market. At a time when base metal prices are wilting on recessionary fears and peace is breaking out all over the place, the gold price has suddenly woken up from a two year old slumber and risen by over $50 per ounce in little more than a month. The FT Gold Mines index, which often seems to be in near terminal decline, has jumped by 45 per cent over the same period.

Predicting where the gold price goes next is a mug's game. But that does not mean that the yellow metal's price fluctuations should be totally ignored. The jump in the price may well be just an aberration, but it could just mean that some investors want more gold, like some people want a bit more disaster insurance. Gold thrives on uncertainty, and while the long-term impact of any cutback in defence spending around the world is positive, there is more than an average amount of political and financial uncertainty around, currently.

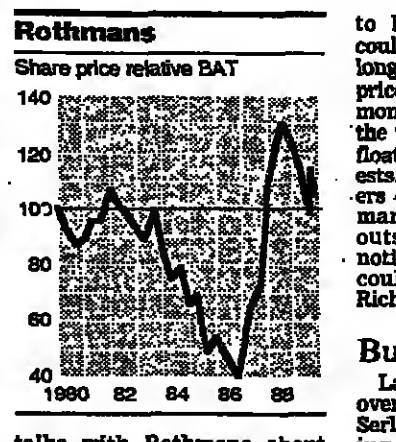
For a start, the 15 per cent jump in the gold price since last month's one-day drop of 7 per cent on Wall Street, contrasts with the minimal rise in the gold price after the Dow's 23 per cent one-day fall in 1987. The recent rise in gold could be another signal that the equity markets are not in as robust condition as two years ago. Certainly, the US corporate sector is more highly leveraged than for a very long time, and one of its main sources of refinancing – the junk bond market – has almost dried up.

The jump in the gold price also does not fit easily with the conventional wisdom that global inflation will decline next year. Perhaps, gold is reacting to the fact that real interest rates are considerably lower than a year ago, Soviet inflation is accelerating, or a perception that the Federal Reserve is now becoming more worried about recession than inflation.

However, gold is probably a better barometer of exchange rates than anything else, and the strongest signal that it may be transmitting is that the dollar's period of surprising strength is over.

Rothmans Int'l

When Swiss-based Richemont's offer for Rothmans closes in less than a fortnight, almost certainly leaving Richemont with 69 per cent control, the real debate will have only just begun. Richemont's tantalising offer document promised talks with Rothmans about enhancing shareholder value. Given both parties' extreme reticence, what that means is a matter for pure conjecture. But one can analyse the forces at work.



While industry-wide cigarette volumes in all the major first-world markets where Rothmans operates declined by between 2 to 4 per cent in 1988-9, its tobacco business is far from entering a terminal phase. One reason is the opportunities remaining in the Asia-Pacific region. Another is that with about 26 wholly-owned cigarette factories worldwide, including 10 in the European Community, it still has scope for rationalisation.

Its margins have already risen, from 9.8 per cent in 1986, to 16.5 per cent now. The corollary though is that Rothmans' tobacco side still requires very active management. Not least this is because of the potent competitive threat posed in most tobacco markets by Philip Morris. But the logical implication is that there seems zero likelihood of any further diversification by Rothmans itself beyond its existing fields.

A second issue is Rothmans' £480m pile of cash. Rothmans wants to make further acquisitions in luxury goods, to add to its 55 per cent stake in Dunhill, and the 99 per cent of Cartier it jointly owns with Richemont. But the evidence shows that in any case the Richemont interests' semi-private status leaves them under no pressure to spend fast. Richemont's balance sheet shows £284.3m in cash and conservatively valued securities; it has about 25 per cent of Mr Donald Gordon's TransAtlantic Holdings, which showed £209.5m in cash and short-term investments in its last accounts.

The third issue is value. Assume a separate flotation of Cartier, on a multiple of 19 times earnings, and according to Hoare Govett, Rothmans could be worth £9.35 a share, a long way from Friday's closing price of £5.52. In theory, Richemont should be eager to close the valuation gap, by selling or floating the luxury goods interests. The problem, for the holders of the 31 per cent of Rothmans likely to be left in outside hands, is that their notions of shareholder value could fail to coincide with Richemont's.

Buyouts

Last week's proposed takeover of UK Paper by Metsa-Serla of Finland revives lurking doubts about the whole principle of the management buyout. When it was bought out from Bowater, UK Paper was hailed as a heroic step in the revival of the independent UK paper industry. It has now decided that it is too small for independent life after all, and is heading back into the embrace of a big corporation.

There are numerous parallels: Caradon, bought out from Reed and sold to MB Group; or Premier, bought out from Cadbury and sold to Hillsdown. Both UK Paper and Caradon had previously gone public again within the conventional two or three year period, thus realising very large sums on paper for the managers. These sums – plus the normal premium for takeover – were then converted to hard cash by selling out.

If buyouts are such a virtuous process of rejuvenation, it is not clear why managers should call a halt in this way rather than leave their money in and continue to multiply it. Indeed, it is not quite clear why they should go public in the first place. Granted, institutional backers generally want the option of taking profits after five years at most. But Uniport, for instance – bought out from Rover in 1987 – has just quietly arranged a re-leveraging exercise, thus satisfying its original backers and leaving control with the management.

The cynical view of the standard three-year buyout – a burst of unwonted effort followed by a relapse into corporatism – need not be the whole story. Both UK Paper and Caradon will end up with more appropriate parents than before, even if the method of changing ownership seems rather clumsy. It is also true that the shock of change, even if temporary, can be a healthy stimulus. But we have heard enough of the buyout as an exercise in courageous self-determination. It is just a way to make a killing, quicker than most.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday November 27 1989

INSIDE

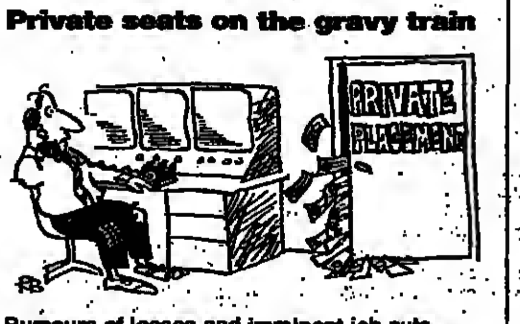
Man who must control the flow

The primary duty of Mr Ian Byatt (left), Director General of Water Services, is to make sure that the soon-to-be-privatised water and sewage businesses of England and Wales can carry out and fund operations. His principal weapon is the cap on water company price increases, which he will both set and review. It sounds simple — and advocates of investment in water believe the Water Act ensures solid returns for shareholders. Yet, in spite of these apparent guarantees, Mr Byatt has already found himself at the centre of political and financial debate. Page 26

Japanese banks feels the pinch

Japanese banks' profits have been squeezed by rising interest rates, forcing some of them to announce their first reductions in interim net profits since 1981, the year they started reporting half-year figures. The increases in interest rates pushed up the cost of money at a time when the proportion of funds raised at market rates, as opposed to artificially low regulated rates, is rising rapidly due to liberalisation. Stefan Wagstyl reports. Page 25

Private seats on the gravy train



Rumours of losses and imminent job-cuts abound in the Euromarket. Everyone agrees there are just too many banks chasing too little business. But, explains Andrew Freeman, many of the larger Eurobond houses have quietly honed ways of improving their overall profits performance. More than a handful of houses admitted last week that in 1989 they have done rather more private placement than public business. They say they are making good profits in this area, so there is much less reason to believe that they are planning large cuts elsewhere. Why shut down a syndicate department when its public struggles disguise the possession of a first class seat on a gravy train? Page 22

Dark side of the enchanted forest

James Buchan examines the problems facing International Paper

Spare a thought for International Paper. The laughing-stock of the world paper industry for a generation, the company has recently been looking good. For 10 years, it poured astonishing amounts of capital into a run-down network of pulp, paper and board plants. And it is reaping the benefit. With booming markets last year, International Paper's sales increased by 23 per cent to $9.5bn and its profits almost doubled to $754m.

But just when the company's luck really seems to be mending, there are ominous signs in the market. US economic activity is slowing down and paper customers are fomenting price competition in the prospect of new capacity: several new or reconditioned paper-making machines start up next year and in 1991. Already prices are stagnant or falling in the company's main commodity markets, such as linerboard (used for boxes) and uncoated white papers for printing and writing.

Georgia-Pacific's $3.5bn takeover offer for Great Northern Nekoosa, though it has yet to be accepted, could create an aggressive new competitor with $15bn in sales and the power to disrupt these commodity markets where International Paper has big but not commanding shares.

Above all, the company has no friends at all on Wall Street. International Paper could have burned the $10.7bn it has spent on its 28 mills and on acquisitions in the 1980s for all the value it has created in the stock market. At just under $50 a share, International Paper is worth $5.4bn on Wall Street: billions of dollars of capital spending have gone up in smoke.

For Mr John Georges, the chairman of International Paper, Wall Street's attitude is disheartening. In an interview last week at International Paper's headquarters in the New York suburbs, Mr Georges, who is 58, said the stock market may be too bearish about world paper markets and is certainly missing the point with International Paper.

An unprecedented capital programme, a big push into Western Europe and a persistent move to more specialised papers and board have made the company much better equipped to withstand a downturn, he says. International Paper is not the boom-and-bust cyclical company it was.

"People remember the severe recession of the early 1980s," he says. "They're using that as a benchmark for us and my gut feeling is that it's not going to be so bad."

International Paper, which is the world's largest paper company and the biggest corporate landowner, began life at the end of the 19th century as a conglomeration of New York and New England paper mills. For two generations, it bought timberland, cut trees and built mills: it was evidently managed without distinction but without great mishap. Towards the end of the 1960s, however, the company attempted to diversify and did run into problems.

It brought in a retired chairman of AT & T, who was succeeded in turn by professionals from Mobil, GE and DuPont. International Paper became a laboratory for managerial experiments cooked up in these forcing-houses of management talent. There was more diversification. The mills, mostly built in the 1920s and 1930s, were neglected. By the end of the 1970s, the company probably had the highest operating costs in the industry. It was slow, weak and defensive.

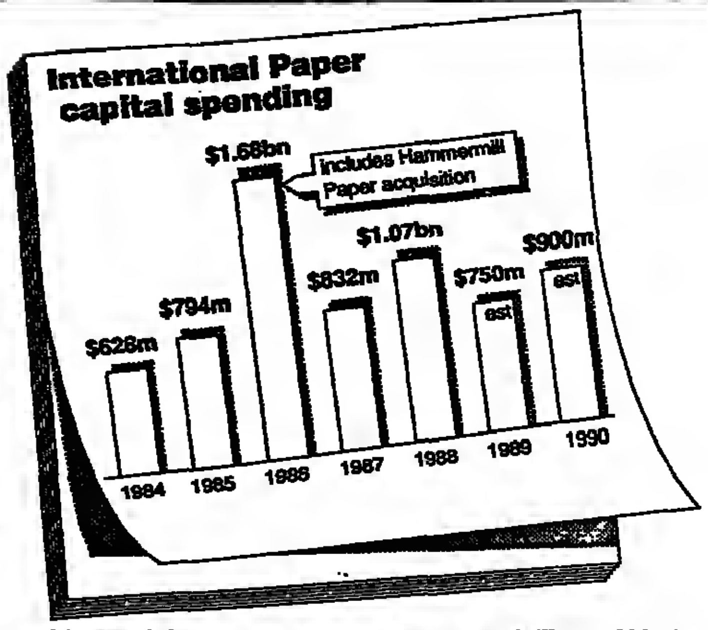
It was Mr Edwin Gee, who became president in 1978, and Mr Georges, who arrived the next year and took the company back to paper. DuPonters both, they raised more than $2bn by selling off businesses: oil and gas reserves, medical products, financial services and, in 1981, the big and volatile Canadian newsprint operation. With the money, and with internally generated profits, they bought a good linerboard mill and acres of southern pine forest. In addition they rebuilt the collapsing paper- and pulp-making machines.

Their timing could not have been worse. Interest rates were soaring, and a $600m linerboard mill in Mansfield, Louisiana opened in 1981 punctually in time for recession. A bungled $500m conversion of an old mill in Georgetown, South Carolina, cost the company huge losses.

But the investment programme, which Mr Georges continued when he took over as chief executive in 1984, has worked wonders for International Paper's cost base. And in a commodity business such as most of the paper industry, low production costs are far more important than size.

While fighting to be low-cost producer in the commodity grades, Mr Georges is also trying to take International Paper into areas of modest growth, higher profits and lower cyclicality. The big move came with his $1.1bn purchase of Hammermill Paper in 1986. This gave International Paper a line of well-known fine papers and a superb mill at Riverdale near Selma, Alabama.

The company is trying to develop proprietary products in its bleached paperboard business, which is growing bendily because of the increasing use of cartons by the drinks industry.



And in 1987, it bought the Anitec photographic papers business in the US (for $394m). It then added a manufacturing base in Europe with the purchase of the Ilford division of Ciba-Geigy in the UK last year. This is a slow-growth business but relatively predictable.

Most important, International Paper spent $320m on the French paper company, Aussedat Rey, earlier this year and will spend a further $300m to develop pulp-making capacity to turn the company's Saillat plant into an integrated mill.

In a European market where barriers to trade seem to be falling like ninepins, Mr Georges believes that Saillat could be in a powerful position as "the lowest-cost mill on the continent."

But Wall Street is so fixed on the prospects of a price slump that it is not listening. For International Paper to increase its value, Mr Georges must show he can take the company through next year's weak market without disaster.

Nobody knows this better than he. "My own guess is that by mid-1990, we'll see a stabilisation and an upturn," he says. "That will help the company, because it will demonstrate to all those doubters in the financial community that we can weather a downturn."

Distance lends distortion to the view

A story that made us laugh like anything when I was at school concerned a man who was kitting himself out to go elephant hunting. He went to the Army and Navy stores and ordered a powerful telescope and a pair of tweezers.

"Certainly, Sir," said the shopman; "but I wonder if I could ask you to tell me how these will help to hunt elephants."

"It's quite simple," said the huntsman. "I'll carry an empty matchbox, of course. Then I'll sit in a tree until I see an elephant, look at him through the wrong end of the telescope, pick him up with the tweezers and pop him in the box."

I had forgotten this story years ago; but for some reason it has come bubbling insistently back to the surface while I was wading through the new OECD report on the US economy – an experience a little like swimming in heavy treacle. There is no direct parallel, but enough disregard for the obvious, misplaced ingenuity and plain nonsense to kick the subconscious awake.

The policy recommendations amount to saying that it would be a good idea to stick to present policies unless it proves advisable to change them, and can safely be ignored. The interest is clearly intended to lie in the analytic chapters addressing such questions as competitiveness and industrial policy, productivity, tax incentives, and deregulation and its effects. There is some interest here, but not always of the kind intended.

Competitiveness interests the Americans to the point of obsession, but it is not very helpful for the OECD to join in the popular sport of drawing up league tables. Thus there are some agonised paragraphs exploring the fact that the US share of world output is much bigger than its share of exports, which goes into such details as continued use of the inch scale, and the diversion of research effort into defence.

These are interesting questions in themselves; but are they worth exploring when there is not even a mention of what is obviously the main reason for this gap? It has nothing to do with competitiveness, but is simply the fact that the US is much the biggest economy in the world.

The right comparison would not be with Japan or Germany but, say, with the EC as a single unit. This would have the same share of output as the member countries do in sum, but a much smaller share of world exports, since all the exports inside the community would no longer count. This is part of a section on microeconomics, and supports my prejudice that a microeconomist is often a man who cannot see the wood for the trees.

Again, there is an agonised discussion of productivity. The US, like Britain, has enjoyed a jump in productivity during the 1980s, and probably for rather similar reasons. The OECD is worried because it cannot explain this change in detail, and even wonders if it has happened at all.

This doubt, it emerges from an appendix, is based on a plain howler. The trouble is that the tremendous improvement in the design and speed of computers tends to flatter the whole picture, as many Americans have pointed out in the past. Today's lap-top will do the work of a roomful of heavy equipment 20 years ago, but the manufacturing problem is totally different, something too radical to be discussed as an improvement in efficiency, which is essentially a linear process.

So far, so good; but the OECD goes on to worry about the index number problem and reaches a wrong conclusion. When a rapid increase in efficiency enables producers to cut prices heavily, it becomes hard to compare the level of output in two periods, since this is normally done at constant prices. This produces a startling result with computers: the share of computer output in total US manufacturing this year is four times higher when measured at 1982 prices as at current prices. "Conversely," the appendix goes on, "it is underweighted prior to the base year. Productivity growth is thus biased downwards thereafter. The productivity pick-up may therefore be an artefact of the choice of base year."

This is just plain nonsense. The effect of the weighting problem is to "overstate" growth both before and after the base year, as a moment's thought will show. This whole discussion is an artefact of muddled thinking; and distracts attention from problems. How, for example, to you measure computer output? (The US Census Bureau measures it in megaflops, or operations per microsecond, for want of a better unit, but this begs all sorts of questions). How, for that matter, do you measure output of services except in man-hours? And if these questions get vague or tautological answers, do you know what you mean by productivity? Or, for that matter, by inflation?

By Anthony Harris in Washington

One can understand the OECD being a little evasive on these basics, since if the numbers are questioned, so is its entire world; but this does not explain a discussion of leveraged buy-outs which fails to mention bankruptcies, and concludes that they may help efficiency by making investment decisions more responsive to the market and by removing these decisions from the influence of fund managers.

One suspects a bias in favour of deregulation. Equally, the OECD should surely face some of the big questions which are now actively discussed in the US. There is much talk of "progress" in "eliminating imbalances", but next to none of how far either of the twin deficits actually matter in the larger scheme of things. Americans, who have now noticed that the promised crises keep failing to happen, are beginning to wonder. Of course there are true and helpful things in the report, and some startling facts – for example, that debt service peaked as a proportion of total US public spending five years ago, contrary to most popular rhetoric.

But this is not enough to disarm my suspicion that the OECD, like any bureaucracy, tends to over-estimate the importance of government policy, and still more the importance of various arbitrary norms which are stated as policy objectives. Yet the real long-term problems of infrastructure and human capital do not get the attention they deserve and demand.

So there you have the view of the OECD in Paris as seen from Washington. It remains only to pick it up with, my tweezers, and pop it into a matchbox.

Economics Notebook

Divergent views on unity

While there seems to be a good chance that next month's European Community summit in Strasbourg will set up an inter-governmental conference to discuss a new Treaty charting the course towards Economic and Monetary Union, it is equally likely that several heads of government will have some reservations about the enterprise they are launching.

Mrs Thatcher, The British Prime Minister, of course, apparently stands alone with her ideological objections to further transfers of economic sovereignty to the Community. Some other leaders ready to accept the principle will, nonetheless, be wondering whether the Community should take on such a difficult task when a great deal of attention must be given to developing its relationship with the "new" Eastern Europe. Others may be worried about the implications of it all, at least as they have been set out in the Delors Report.

Mr Karl Otto Pöhl, president of the West German Bundesbank, appeared to be counting on such misgivings during an interview on BBC television eight days ago when he doubted that many European governments would be prepared to accept West Germany's terms for creating a European Central Bank.

Bonn would naturally insist that the ECB be statutorily independent, as is the Bundesbank, and that its dedicated priority must be to contain inflation to an absolute minimum. Mr Pöhl was clearly against rushing towards EMU, preferring, instead, a two-year waiting period to allow completion of the European Monetary System and some of experience of living with a free capital movement regime.

If the inter-governmental conference is launched in the second half of next year, its work would begin under the chairmanship of Italy which has no shortage of thinkers on the subject in the Treasury and the central bank. Unlike some of the nation's politicians, they are by no means romantic dreamers, but people who are convinced for practical economic and political reasons that the achievements of the single market cannot be preserved without clearly defining the EMU objective and steadily moving towards it.

One aspect which the British government would do well to ponder is that their political premise is wrapped in anxieties about sovereignty. Rather than sharing Mrs Thatcher's worries about losing it, these Italians want to claw some back. Whereas the UK prime minister appears to regard her Chancellor's monetary policy as an entirely autonomous choice, the Italian central bank believes that everyone's freedom of manoeuvre in the Community on monetary matters has been, and remains very strictly circumscribed by the Bundesbank and the power of the Deutschemark.

Rome is the first to admit that German dominance of the EMS has served well in the 1980s in narrowing inflation differentials between member countries. But the Italians believe it will not do for the future, for both political and economic reasons. Mr Carlo Azeglio Ciampi, governor of the Bank of Italy, apparently sent Mr Pöhl's eyebrows well up into his hairline when he bluntly stated some of these views at an Italo-German Forum last month.

The Governor deftly played the sovereignty card – without ever using the word – as part of a reasoned argument against Mr Pöhl's preference for leaving the DM as the EMS' anchor currency. He reminded his audience that the building of the Community is founded on "the basic principle of parity," and argued that as it is currently structured, the EMS is working contrary to this system. If it continues, warned Mr Ciampi, it would "create tension between member states."

Italian monetary officials are irritated by frequent Bundesbank claims that Italy would be one of the countries looking for a European monetary policy aligned on average inflation. Having already clearly indicated their support for an independent European central bank committed to price stability, they are looking for participation in policy-making rather than a higher inflation rate in West Germany.

The Italian central bank believes that the conditions which have established the DM as an anchor currency in the EMS – wide inflation differentials among member countries and capital controls in many – are being eroded and that in any case the dominance of an anchor currency conflicts with the principle of joint participation in the making of monetary policy which ought to underpin a monetary union.

Above all, Mr Ciampi and his colleagues argue that beginning work on an EMU treaty is a necessary concomitant of stage one of Delors. This will confer a wider role in co-ordinating monetary policies on the Committee of Governors which is also to be equipped with its own expert secretariat. But Rome believes that the Committee will need a framework of longer-term EMU objectives in which to operate. "We can be flexible about when we will arrive there and about how we will arrive there, but we need to know where we are going," says a very senior official at the Italian central bank.

John Wyles

THIS WEEK

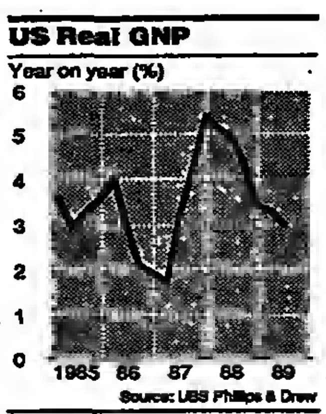
THIS WEEK is dominated by US statistics. Of greatest importance will be Friday's Purchasing Managers' Survey for November, which is increasingly regarded as one of the most informative indicators of US economic activity. As the first US data from November it will offer the most up-to-date view of trends in manufacturing industry.

The survey is expected to provide further proof of how quickly the US economy is losing momentum. Analysts predict that the wide range of information in the survey on production, commodity price inflation, orders, and employment should reveal how much manufacturing industry has shrunk under the weight of an unfavourable exchange rate.

Preliminary figures for the US gross national product in the third quarter are out on Wednesday. They should complete the picture of a sluggish US economy. The consensus of analysts' forecasts, compiled by MMS International, the financial consultants, is for GNP growth of 2.6 per cent between July and September, compared with 2.9 per cent in the second quarter.

If these sets of statistics confirm the slowdown in the US economy, the Federal Reserve may decide it has room to loosen the bindings of monetary policy. The Fed is concerned that the economy may be decelerating too fast, and appears prepared to ease off the monetary brakes to stimulate economic activity. A cut in the key discount rates is possible, and economists are predicting that the Fed funds rate, currently about 8¼ per cent, will be at 8 per cent by the year end.

A quiet week for UK economic news kicks off today with the appearance Mr Norman Lamont, Chief Secretary to the Treasury, before the Treasury and Civil Service Committee. He is expected to be given a tough grilling on the Government's spending plans and forecast for the economy as outlined in the recent Autumn Statement. On Wednesday the final money supply data for October are released.



Other events and statistics due out this week (MMS International consensus forecast in brackets) include:

Today: UK, Confederation of British Industry monthly trends enquiry. Paris, Organisation for Economic Co-operation and Development Trade Committee meeting.

Tomorrow: Japan, industrial production for October.

Wednesday: UK, London sterling certificates of deposit Bill turnover statistics, monetary statistics, sterling commercial paper, new vehicle registrations, overseas travel and tourism for October. West Germany, cost of living index for November, gross national product for third quarter.

Thursday: UK, energy trends for September. US, personal income (up 0.6 per cent) and personel consnmption (unchanged) for October. Japan, foreign reserve for November. West Germany, Bundesbank central council meeting in Frankfurt.

Friday: UK, company liquidity survey. US, leading indicators (-0.2 per cent) and construction spending for October. Japan, consumer price index for November, current account and unemployment for October.

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Private placements keep managers on the gravy train

WHEN SYNDICATE managers look back over 1989, they are likely to remember in snapshots tbe pnblic events and issues that have dominated the year.

Among them will uo doubt be the World Bank global bond issue, Crédit Suisse First Boston's sbort squeeze ou tbe Toyota Motor Credit deal and its Eurosterling issue for Italy, J.P. Morgau's Fiulaud exchange deal, Morgan Stanley's New Zealand reoffered deal and Merrill Lynch's recent GMAC issue.

All these have one thing in common – they contributed, either deliberately or unwittingly, to a heated debate on the way Eurobond issues are underwritten and distriboted.

That debate was fuelled by the appareot overcapacity and lack of profitability of the wider market. Hard evidence of the lack of profits generated by the leading houses in the market is difficult to come by. indeed, filings by UK-based banks at Companies House in the UK are uotorious for their opacity and tardiness.

So how tough has business actually been? Everyone in the Euromarket agrees there are too many banks chasing too little business aud that it has been bard to make money. Rumours of losses and imminent job-cuts abound. And yet a little questioning reveals that many of the larger Eurobond bouses have quietly honed ways of improving their overall profits performance. Enter the private placement.

More than a handful of houses admitted last week that in 1989 they have done rather more private placement than public business. They say they are making good profits in this area, so there is much less reason to believe that they are planning large cuts elsewhere. Why sbut down a syndicate department when its pnblic struggles disguise the possessioo of a first class seat on a gravy train?

The private placement business is secretive, profitable and imaginative. Although it has a very wide borrower base, it depends for its lenders largely (roughly 80 per cent, say the banks) on Tokyo. It generally involves more structursd finance than the public market, and it uses little of banks' precious capital for underwriting.

The secrecy frustrates researchers who try to gauge the size of the market. Increasingly, deals are quasi-private in that they carry a formal listing but are actually placed with one or a very few investors.

Some deals are announced publicly, either because the parties involved wish to advertise their relatiouship or because the originator wishes to claim the deal for league table purposes. More often, however, an original idea is kept secret so the bank which thought it up can use it again for further deals. This makes it almost impossible to quantify how much business is done, but banks agree it is a large and fast-growing sector.

The profitability of private placements is renowned. One banker said the risk-reward ratio on an average private placement was higher than that of a typical public Japanese equity warrant issue, although he added that many deals are done without fees, the profits coming from arbitrage or swap activity.

Because they are hidden from public scrutiny, placements give lead managers more flexibility in creating a bond-swap package. Public deals are notorious for giving little or nothing away to the market in the form of generously-priced bonds, but reach funding targets for borrowers by playing clever games with swaps. In private, banks can fine-tune a package unhindered by such considerations.

This puts special emphasis ou the last characteristic of placements, tbe exteut to which houses with structured finance skills enjoy a large share of the business. Given the importance of Japan as the main source of funds, US houses like Bankers Trust, Salomon Brothers, J.P. Morgan, Morgan Stanley and Merrill Lynch do a remarkable proportion of the invisible business, largely off the back of their ability to create financial packages that suit borrowers and investors. Ironically, they are assisted in this by the tendency of Japanese banks and securities houses not to compete so avidly where there is little publicity at stake.

Private placements this year have fallen into four main categories. Early in the year, there was a string of 10-year yen loans by Japanese life insurance companies, the typical borrowers being sovereign and top bank credits. More recently, short-maturity yen deals with quasi-public status have been driven by swap opportunities.

Floating-rate transactions related to banks' capital reqnirements bave been bought mainly by leasing and trading companies and have generally been structured to involve the so-called square trip, a term for the routing of deals typically via the Cayman Islands.

Finally, 1989 has seen the rapid expansion of deals linked to equity indices. These are bought by a wide range of institutions and have been mainly for bank names.

Some bankers, while welcoming the revenues they have earned, think that private placemeuts have thrown the problems of the public market into sharp relief. Bells and whistles no longer sell in public, and this will mean staff cuts because private deals are less labour intensive than the public alternative.

In future, placements should continue to grow, and Europe is expected to become a more important source of funds, with Japan's capacity for new lending gradually slowing. The eventual closure of the tax and accounting loopboles that encourage many deals will also act as a limit on progress. But it will take an enormous change on the public market before the private business reverts to its occasional past.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Penta-Ocean Constr'ion♦♦	100	1993	4	8¼	100	Yamaichi Int. (Eur)	3.250
Nippon Electric Glass♦♦	150	1994	5	3⅞	100	Daiwa Europe	3.875
Sekisui Plastics♦♦	100	1993	4	3¼	100	Nikko Secs. (Europe)	3.250
Nippon Tel.& Tel.♦	200	1996	7	8½	101½	Paribas Capital Mkts	8.210
Toyo Menka Kaisha♦	750	1993	4	(3⅝)	100	Nikko Secs. (Europe)	★
Belgium, Kingdom of(a)‡♦	400	1999	10	(a)	100.10	CSFB	-
Yuen Foong Yu Paper(b)§♦	100	1999	10	2	100	Bankers Trust Int.	2.000
Nippon Metal Industry♦	100	1993	4	(3¾)	100	Nomura Int.	★
Union Bank Finland(h)♦	350	1991	2	6	101⅛	Nomura Int.	5.392
Sparekassen SDS(h)♦	350	1990	1	8	101⅛	Nomura Int.	4.821
Top Fin.(Bermuda)II(k)♦	100	2000	10¼	8.26	100	Kidder Peabody Int.	9.248
Top Fin.(Bermuda)II(j)‡♦	25	2000	10¼	20bp	100	Kidder Peabody Int.	-
Nippon Express Co.♦	500	1994	5	(4¼)	100	Nomura Int.	★
QP Corp.♦	150	1994	5	(4⅜)	100	Daiwa Europe	★
Toyota Tsusho Fin.(n)♦	25	1990	1	18¾	100⅞	Mitsubishi Fin.	-
CANADIAN DOLLARS							
Tokyo Electric Power Co♦	150	1996	7	10⅝	101.30	Wood Gundy	10.355
Banque Nat. de Paris(e)♦	75	1992	2.2	11⅛	100.775	ScotiaMcLeod	10.663
AUSTRALIAN DOLLARS							
State Bk Sth Australia♦	75	1993	3	18	102	Hambros Bank	15.122
D-MARKS							
Toshiba Tungaloy Co.♦♦	120	1993	4	1⅝	100	Nomura Europe	1.625
Sanyo Special Steel Co♦♦	150	1993	4	1⅝	100	Deutsche Bank	1.625
Aichi Tokei Denki Co.♦♦	45	1994	5	1⅞	100	Deutsche Bank	1.875
Takashimaya Co.♦	300	1993	4	(1⅝)	100	Nomura Europe	★
Kyokuto Boeki Kaisha♦	50	1993	4	(1⅝)	100	Daiwa Europe(Germany)	★
World Bank(f)♦	150	1994	5	9	100½	Commerzbank	8.872
Lion Corp.♦	150	1994	5	(1⅞)	100	WestLB	★
QP Corp.♦	100	1993	4	(1⅝)	100	Nikko Secs.(Germany)	★
SWISS FRANCS							
Credit Local de France♦	100	1995	-	8½	101½	UBS	6.143
Bühmann-Tetterode★★♦	75	1994	-	6½	100½	UBS	6.380
KFW Int. Finance♦	100	2000	-	6¼	101¾	UBS	6.012
Wako Electric Co.(c)★★§	45	1994	-	¼	100	UBS	0.250
Nikkatsu Corp.★★♦	60	1996	-	6⅝	100	SBC	6.625
Tokyo Soir Co.(l)★★§	40	1994	-	¼	100	Yamaichi Bank(Switz)	0.250
New Japan Chemical(m)★★§	75	1994	-	¼	100	Nomura Bank (Switz)	0.250
Misawa Homes Co.(o)★★§	200	1995	-	¼	100	Credit Suisse	0.250
Daido Sanso KK★★♦	60	1994	-	1	100	Credit Suisse	1.000
Lion Corp.(p)★★§	150	1994	-	(¼)	100	Credit Suisse	★
Japan Aircraft Mnf(q)★★§	40	1995	-	¼	100	Bqe Paribas (Suisse)	0.250
ECUs							
Swedish Export Credit♦	100	1994	5	8¾	101⅞	Bankers Trust Int.	9.265
Interfinance Cr.Nat.♦	50	1991	2	10¼	101.70	BNP Capital Markets	9.260
Credit Foncier♦	150	1999	10	8¾	101¼	CCF	9.101
Sweden, Kingdom of♦	100	1994	5	8½	102	UBS Phillips & Drew	8.966
FRENCH FRANCS							
NERSA(l)‡♦	700	1996	7	⅛	100	Societe Generale	-
IRISH PUNTS							
EIB(d)♦	40	1996	7	8¾	98.81	Riada/Ulster Bank	10.022
ESCUDOS							
Eurofima♦	7bn	1992	3	15¼	100	J.P. Morgan Secs.	15.250
LUXEMBOURG FRANCS							
Svenska Handelsbanken★★♦	300	1993	3	8	101	BIL	8.606
Union Bank of Finland★★♦	300	1995	5.1	9⅛	100⅞	BIL	8.895
YEN							
Leeds Permanent B.Soc.♦	15bn	1993	3¼	6⅞	101⅛	Daiwa Europe	5.972
Swedbank♦	10bn	1992	2⅞	6.35	101	Yamaichi Int. (Eur)	5.846
Credit Local de France♦	30bn	1994	5	6¼	101⅞	Daiwa Europe	5.836
Baltica Holding A/S♦	5bn	1993	4	6⅜	101¼	Nomura Int.	6.014
Swedish Export Cr.(g)♦	2bn	1990	1	3.6	98.60	Sanwa Int.	10.040
Swedish Nat.Housing Fin♦	15bn	1994	5	6⅞	101⅞	Nomura Int.	5.960
Teollisuuden Voima Oy♦	5bn	1993	4	6.1	100⅛	Yamaichi Secs.	6.046
Swedbank♦	5bn	1993	3¼	6.15	101.20	Sumitomo Trust Int.	6.724

★Not yet priced. ★★Private placement. ♦With equity warrants. §Convertible. ‡Floating rate notes. [illegible] Note: Yields are calculated on AIBD basis.

INTERNATIONAL LOANS

A glimmer of life in Third World finance

THREE TRANSACTIONS emerged last week to show that international banks have not completely halted lending to developing countries, in spite of the lingering effects of the Third World debt crisis. Each suggests that developing countries willing to use assets imaginatively can secure some commercial bank finance.

This is true of the $45m pre-export financing for Zimbabwe arranged by Bankers Trust, which was oversubscribed, and for two financings arranged by Chase Investment Bank for Zambia Airways and Sonatrach, the Algerian state hydrocarbons concern.

The Sonatrach financing, marking the re-entry of Algeria to the medium-term syndicated loan market after more than a year, offers banks higher rewards if the price of oil goes up or down.

With a final maturity of seven years and a four-year grace period, the loan, underwritten by eight banks, pays a margin of 1 percentage point over London interbank offered rates. That goes up by ⅛ point for every dollar the price of oil moves below a reference range (to reflect the higher risk faced by banks), and rises by the same margin for every dollar it moves above tbe range (so banks share in the prosperity).

The range moves, but stands from $16 to $22 a barrel for West Texas Intermediate crude in the first year. What the lenders receive is not necessarily what Sonatrach pays: options appear to have been used to cover oil price swings.

Zambian Airways is financing the purchase of a McDonnell Douglas MD-11 for delivery in 1992 at a cost of $110.6m. The transaction, similar to a previous financing for the Polish airline Lot, has several layers of protection for banks. Aircraft finance usually offers a tangible asset which banks can look through to in case of default.

The airline is putting in 10 per cent equity, leaving $99.6m to be financed by banks. The manufacturer has agreed to cover a "first-loss deficiency" of 22.5 per cent, protecting the banks against a fall in second-hand MD-11 prices by a further $24.9m. A rental payment of $3.4m is also due on the day of delivery, leaving total exposure on delivery at $71.3m.

Underlying it all is political risk insurance, under which Lloyd's of London will cover for the possibility that the aircraft is not recoverable. The borrower is a US-based owner trust, and some banks will consider the ultimate country of risk to be the UK.

Final maturity will be 12 years from delivery, and average life will be 7.95 years. The interest rate margin is 1.5 percentage points and the commitment fee ⅜ per cent.

The loans market generally was inundated by a rush of corporate deals ahead of the year end. Some optimism emerged over European leveraged finance: Warburg's assiduous efforts to speed up the slow-moving deal for Isosceles appeared to be meeting some success at last. At least two other deals were rumoured, including a possible revitalisation of the buy-out of Sicli, the French security and fire-protection company.

Finnish mandates began to emerge, ahead of new tax on foreign borrowings by Finnish companies, with some banks predicting resistance to the aggressive terms. Five banks have underwritten a $200m, seven-year term loan for Kymmene, the second-largest industrial company in Finland. The margin is 15 basis points. Another, A. Ahlstrom, is raising $100m over seven years at a 20 basis point margin through Citicorp. Citicorp is also arranging a £350m refinancing for Enterprise Oil of the UK.

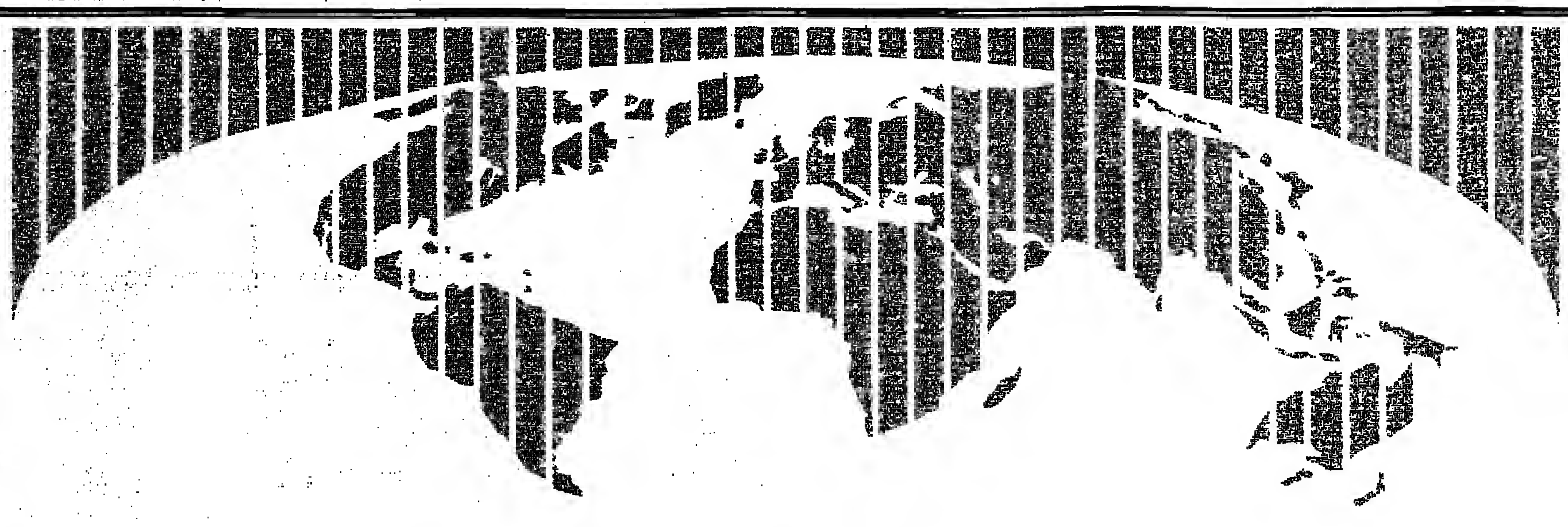
Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,741.0	0.0	240.0	9,673.3
Prev	2,413.8	0.0	0.0	10,632.6
Other	1,299.8	0.0	128.3	2,389.5
Prev	1,633.9	0.9	551.2	4,880.2
Secondary Market				
US$	18,685.0	734.8	7,993.1	5,850.4
Prev	20,623.3	313.3	4,344.4	8,059.6
Other	36,869.3	863.0	2,994.0	40,799.0
Prev	16,788.5	1,393.2	3,703.5	34,276.5

	Cedel	Euroclear	Total
US$	10,542.0	33,775.6	44,317.6
Prev	12,266.0	34,619.0	46,885.0
Other	26,338.4	39,004.5	65,342.9
Prev	28,154.2	35,073.7	63,227.9

Week to November 23, 1989 Source: AIBD



This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these Securities.

$4,000,000,000

Tennessee Valley Authority

$1,500,000,000 8¼% Power Bonds 1989 Series F Due 1996
$2,500,000,000 8⅝% Power Bonds 1989 Series G Due 2029

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YAMAICHI INTERNATIONAL (AMERICA), INC. — AIBC INVESTMENT SERVICES CORP. — AMSOUTH BANK, N.A. — CENTRAL BANK OF THE SOUTH
THE CHEROKEE SECURITIES COMPANY — CITIZENS & SOUTHERN NATIONAL BANK — CRAIGIE INCORPORATED
CUMBERLAND SECURITIES COMPANY, INC. — DANIELS & BELL, INC. — DISCOUNT CORPORATION OF NEW YORK — DOLEY SECURITIES, INC.
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November 1989

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Fiscal policy regains centre stage

THERE WERE two interesting developments last week in the context of the most recent history of US economic policy.

Firstly, the US Federal Reserve again moved, slightly ahead of the market's thinking curve, to loosen control on credit. This was in spite of a rather discouraging 0.5 per cent increase in US consumer prices in October, even after leaving out food and energy.

The second, more remarkable strand of the holiday-shortened trading week, was that fiscal policy moved back into centre stage. After years of monthly budget deficit figures being ignored and with annual Congressional bargaining over how to comply with Gramm-Rudman-Hollings passed off as a joke, Wall Street started talking about tighter fiscal policy.

As always in the effort to balance fiscal and monetary policy, these two developments are probably not unrelated.

Take the latest apparent easing in monetary policy. The Fed surprised almost everyone with its aggressive injection of reserves on Wednesday through five-day repurchase agreements. This move sent the Fed funds rate almost immediately down to 8¼ per cent, widely believed to be the central bank's new target.

This latest modest easing comes relatively soon after the previous easing from a 8¾ per cent Fed funds rate at the beginning of this month.

It came in a week when consumer prices figures provided evidence that inflation had by no means been beaten. The underlying inflation rate bounced back to around 4.5 per cent — the position which it has stubbornly occupied for most of the last six years.

Clearly, the Fed, while still concerned about inflation, is erring on the side of accommodation, reflecting troubles in a number of sectors of the economy. Salomon Brothers notes that much of the acceleration in consumer prices inflation in October was due to one-time price rises in particular markets such as cars, clothes and hotels.

By contrast, forward-looking indicators point to sluggish economic expansion with both orders and shipments of durable goods depressed last month, according to last week's figures.

Mr Robert Brusca, chief economist at Nikko Securities in New York, believes the factory sector is weak across the board with orders and shipments down last month in primary metals, non-electrical and electrical machinery.

"Most firms continue to cannibalize their order books to maintain shipments at a weak pace; this cannot last for long. The Fed is certain to respond to these new signs — and that will keep the economy from recession," writes Mr Brusca in his weekly comment.

What Salomon Brothers calls a "deepening profits recession" — the product of mounting costs colliding with softening pricing and demand — is heightening business caution and limiting employment and capital spending growth. Non-cyclical developments, including natural disasters such as the California earthquake and Hurrican Hugo, as well as the continuing woes of the thrift industry, are contributing to the slide in profits.

The timing of the Fed's latest move during Thanksgiving week was not widely expected in spite of reports of pre-Christmas retail sales being disappointing as the consumer retrenches.

One theory was that the Fed wanted to encourage the leading money centre banks finally to lower their prime lending rates. After the last loosening move, only the ubiquitous Southwest Bank of St Louis and two other small banks lowered prime to 10 per cent from 10.5 per cent.

Mr Brian Fabbri, chief economist at Midland Montagu notes that, as the prime rate is currently around 240 basis points above competing 90-day commercial paper rates and 220 basis points above domestic CD rates, it should fall imminently. He also notes that banks and other lenders have been slow to lower mortgage rates.

Given the woes in some parts of the housing sector, the Fed probably wanted to encourage the other banks to follow suit, so sending an encouraging signal to the consumer.

What is probably more significant is that last week bore witness to the "world peace rally." Bonds rose briefly on news of US defence cuts in response to the melting of the Cold War. The Administration decided to request authority for steadily declining inflation-adjusted spending in 1991 to 1994.

In the same week, eager to get away for the Thanksgiving holiday, Congress passed, with less bluster than usual, a $17.8bn deficit reduction package.

"The measure's effective fiscal restraint is greatly exaggerated by accelerated tax collections, dubious accounting tactics and optimistic estimates of tax-base broadeners," Salomon Brothers noted. "But the continuation through January of across-the-board spending cuts, which will cumulate over subsequent years, provides genuine budget restraint."

Under persistent pressure from the Administration to ease monetary policy all year, the Fed has always said that the fiscal position would have to be tightened before any joy would be forthcoming from the central bank. Nobody ever anticipated any serious movement on the deficit from Washington but Mr Mikhail Gorbachev and the people of Poland and East Germany have done Capitol Hill an enormous favour.

Although the immediate effect in currency markets of the thrilling events in Eastern Europe has been to put the dollar under pressure against the surging D-Mark, cut in military spending and the other developments on the fiscal front should eventually help the dollar.

Treasury bonds did mildly well last week, particularly in response to the Fed's monetary easing. The need to offset recent hints of fiscal rectitude may induce a further move towards accommodation, something for the bond market to look forward to.

Janet Bush

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.25	8.38	8.68	9.92	8.00
Three-month Treasury bills	7.75	7.92	8.03	9.03	7.15
Six-month Treasury bills	7.67	7.83	8.03	9.03	7.37
Three-month prime CDs	8.18	8.35	8.55	10.35	8.18
30-day Commercial Paper	8.25	8.36	8.60	9.95	8.05
90-day Commercial Paper	8.10	8.20	8.35	10.05	8.10

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	101¼	+¾	7.74	7.85	7.94
20-year Treasury	112⅞	+⅞	7.97	8.03	8.04
30-year Treasury	102⅞	+⅞	7.87	7.93	7.94

Money supply: In the week ended November 13 M1 fell $8.5bn to $785bn.

NRI TOKYO BOND INDEX

December 1983 = 100	22/11/89	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	147.81	5.89	147.79	149.99	147.99
Government Bonds	147.78	5.62	147.80	150.26	148.24
Municipal Bonds	149.24	6.08	149.05	151.75	149.80
Govt.-guaranteed Bonds	150.45	6.18	150.27	152.74	150.85
Bank Debentures	141.92	6.11	141.96	143.68	141.63
Corporate Bonds	150.95	5.99	150.80	152.27	150.25
Yen-denom. Foreign Bonds	155.61	6.50	156.64	156.50	154.94
Government 10-year†	5.40	—	5.98	5.05	5.07

† Estimated par yield

Source: Nomura Research Institute

CBT tightens price limits

THE CHICAGO Board of Trade is to tighten circuit breakers for its Major Market Index stock index futures contract, in a further move to curb stock market volatility, Reuter reports. The CBT has added another price limit layer after a 30-point MMI fall and has narrowed the maximum daily MMI move to 50 points from 80. The proposed CBT changes are its second such move since the October 13 mini-crash.

UK GILTS

Interpreting the words of Major

THIS AFTERNOON, Mr Norman Lamont, the Chief Secretary to the Treasury, appears before the House of Commons Treasury and the Civil Service select committee to answer questions on the Autumn Statement.

Having spent lunch hours preparing responses to likely questions on the details of the Government's public spending plans, inflation and interest rates, Mr Lamont and his officials could well face questions on the predicted fall in the public-sector debt repayment (PSDR).

In his Autumn Statement, Mr John Major revised the 1989-90 PSDR down to £12.6bn — 2.5 per cent of GDP — compared with the £13.8bn predicted in Mr Nigel Lawson's March Budget.

This revision caused a ripple in the market, though Mr Lawson had earlier warned of a smaller PSDR this time round. Until the Autumn Statement, continued repayment of debt on the same large scale was expected. This is the biggest factor in the reduction in the size of the gilts market, which has been contracting by more than £12bn a year since 1988.

Taking the smaller PSDR together with the £6bn more-than-expected public-spending forecast, the Chancellor had outlined what appeared to be a healthy recipe to propel the gilts market into the 1990s.

At last, market makers could say, the prospect of the Bank issuing gilts again to finance expenditure plans was back on the horizon: perhaps when the PSDR had diminished to a £7bn level.

After the statement, the ever-shrinking group of market makers in gilts (27 after Big Bang in 1986, now 19) took hope that they might once again outnumber gilts analysts — who have taken to calling themselves "starling bond analysts" because gilts were scarce and trading volumes sometimes negligible.

With a borrowing requirement rather than a debt repayment resulting in more gilts, long yields could rise to 11 per cent or more.

Gilt prices would come down with the influx of stock — as they did in immediate response to the news in the Autumn Statement. Then bonds would become more attractive to the investment institutions needing a safe haven in which to match long-term liabilities and assets.

However, the Autumn Statement may have been too readily interpreted too soon. Economists at a number of houses are not unanimous in their interpretations of how much the gilts market itself will contract. Funding arithmetic and economic forecasting bring a varied selection of estimates.

Midland Montagu is predicting a "considerable shrinkage" of £40bn in the market's present size of £122bn to £82bn by March 1991. This it arrived at by assuming a PSDR of £15bn in 1989-90 and 1990-91, which is bigger than the Treasury's expectations. In addition, Midland Montagu anticipates foreign exchange intervention of £7bn in 1989-90 and £3bn in 1990-91. This estimate is sufficiently severe to send the market makers back into gloom — though if the market did shrink so sharply, gilt prices would soar.

Warburg Securities is expecting a "flatter profile," taking into account the Mansion House speech by Mr Lawson which outlined a more flexible funding policy.

No longer would foreign exchange intervention be fully sterilised with purchases of gilts on a month-by-month or year-by-year basis. Treasury Bill sales would also be excluded from the full funding rule.

Warburg says the key question for the gilts market is whether the Government will exploit the new funding rules. But assuming the Bank buys in £4bn worth of gilts in 1989-90 to sterilise intervention, the gilts market could contract by about £13bn next year, Warburg estimates.

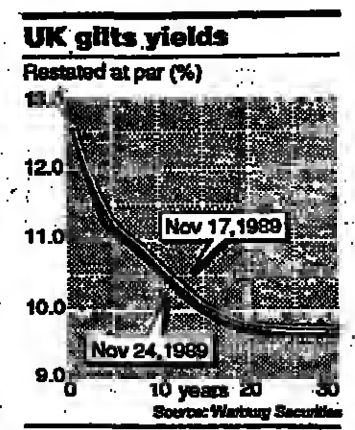
At UBS Phillips and Drew and NatWest Gilts, the economists are also looking for the market to show a contraction of around £14bn by March 1990. On this trend, the market size could be £100bn by the end of March 1991.

All these assessments take the shine off the Autumn Statement for market makers in gilts. The continuing predicted reduction in market size over a two-year period, will, economists agree, considerably reduce the market's liquidity.

Even though the Bank is making efforts to improve liquidity with its already announced stock conversion programme, investors are still likely to be strongly tempted to invest in sterling corporate bonds instead of gilts. The Bank is accordingly very keen to see the rapid expansion of the sterling bond markets continue to take up the slack.

But while encouraging the growth of parallel markets, the Bank is giving precious little away about the likely size of the gilts market over the next couple of years. If the market shrinks too quickly, the Bank has intimated that it "will take a view."

Rachel Johnson



FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on 24NOV89

Rate increases hit Japanese banks

By Stefan Wagstyl in Tokyo

JAPANESE BANKS' profits have been squeezed by rising interest rates, forcing some of them to announce their first reductions in interim net profits since 1981, the year they started reporting interim figures.

The increases in interest rates pushed up the cost of money at a time when the proportion of funds raised at market rates, as opposed to artificially-low regulated rates, is rising rapidly due to liberalisation.

The banks have been hit hard by the fact that short-term rates, at which they often raise funds, have risen further than long-term rates, the rates at which much of their money is lent out.

The total net profits of the 12 leading city (commercial) banks plus the Bank of Tokyo, which reported unconsolidated results on Friday, rose just 2.8 per cent in the six months to the end of September.

The biggest five reported declines in net income. For the full year the 13 banks expect reductions in net income following further increases in interest rates and likely write-offs on loans to Mexico.

The banks were unable to cover up their difficulties to the same extent as in the past by selling large amounts of securities because the Ministry of Finance has urged self-restraint and ordered accounts to be presented in a more transparent way.

For the first time, the banks have had to reveal a new category of profit – called net operating profit – which excludes profits from capital gains on most kinds of securities. As the table shows, net operating profits are considerably lower than pre-tax profits, which, in the traditional way, include gains on securities transactions.

The most startling revelation is the particularly heavy reliance on securities profits of Tokyo banks – including Dai Ichi Kangyo Bank, Mitsubishi Bank and Mitsui Bank – in comparison with their fast-growing rivals from Osaka – Sumitomo and Sanwa. Mitsubishi's net operating profit is only half the pre-tax figure.

Sumitomo is by far the most profitable bank at both the net operating and the pre-tax level, as before.

Sanwa shot up the profits' table from fourth position to second, overtaking Fuji Bank and Mitsubishi.

The Bank of Tokyo, which once dominated foreign exchange business, has kept its traditional lead in revenues from international operations. Sumitomo was second and Mitsubishi third. Sanwa, with a 55 per cent increase, jumped ahead of DKB and Fuji into fourth position.

A prolonged decline in the Japanese bond market this year hit the banks' bond dealing profits, normally a useful source of supplementary revenues. Combined bond dealing profits dropped 39.4 per cent to Y14.9bn ($104m). Fuji reported its first-ever loss from bond dealing – Y4.5bn. The Bank of Tokyo made a profit on bond dealing after a loss for the same period last year.

JAPAN'S 13 TOP COMMERCIAL BANKS
Results for first-half of 1989/90 (Ybn.)

	Pre-tax profit	% chg.	Net op. profit	% chg.	Intl. income	% chg.	Net profit	% chg.
DKB	144.6	+3.8	95.6	+12.0	39.4	+2.8	80.3	-0.1
Sumitomo	180.7	-2.2	145.0	+30.2	67.3	+11.2	97.1	-3.7
Fuji	147.1	-12.7	103.9	+7.3	40.3	+25.8	83.8	-8.1
Mitsubishi	170.8	+3.3	85.7	-23.6	33.5	-14.2	80.4	-2.0
Sanwa	173.5	+8.0	127.0	+56.5	52.8	+55.5	80.2	-0.1
Tokai	77.0	+13.0	37.2	-34.8	25.0	+29.3	34.9	+15.9
Mitsui	69.4	-0.3	15.4	-62.4	20.6	+36.3	33.5	-1.2
Taiyo Kobe	58.6	+12.7	44.9	+14.7	15.8	+24.6	30.8	+18.2
Daiwa Bank	47.8	+8.0	47.7	+9.8	7.9	-27.2	24.8	+32.1
Kyowa	43.8	-2.7	37.0	+2.8	11.3	+6.8	20.4	+5.6
Saitama	34.5	+1.8	30.5	+9.5	10.3	+40.5	16.3	+19.9
Hokkaido	24.4	+25.7	19.7	+9.7	6.7	-18.1	11.3	+31.7
B of Tokyo	49.4	-3.5	42.4	-8.5	76.9	+11.1	32.7	+3.9
TOTAL	1229.9	+1.6	830.9	+2.9	406.8	+14.2	626.7	+2.8

IBJ tumbles midway as rivals advance

By Ian Rodger in Tokyo

PROFITS OF Industrial Bank of Japan (IBJ), the largest of Japan's three wholesale banks, tumbled in the six months to September 30 because of the higher costs of raising capital.

The two other wholesale banks, Long Term Credit Bank of Japan and Nippon Credit Bank, both enjoyed very rapid profit growth because of highly-profitable dealings in foreign exchange and government bond markets.

JAPANESE WHOLESALE BANKS – First-half of 1989/90 (Ybn)

Bank	Revenue	% chg	Business profit*	% chg	Net income	% chg
IBJ	1,265.1	+22.8	65.6	-28.7	51.1	-0.4
LTCB	891.5	+20.9	41.7	+238.2	36.4	+9.6
Nippon Credit Bank	546.4	+19.1	28.8	+821.9	22.3	+13.9

* Business profits are taken before tax and securities transactions.

IBCA promotes five to top AAA rating

By Stephen Fidler, Euromarkets Correspondent

IBCA, the London-based rating agency specialising in bank credit analysis, has promoted five Japanese banks to its top-rated AAA category.

This brings to 13 the number of international banks given IBCA's highest rating, e list from which Japanese banks were previously absent.

The banks added are Fuji Bank, Industrial Bank of Japan, Mitsubishi Bank, Sanwa Bank and Sumitomo Bank.

IBCA cited the continuing strength of the Japanese economy and of the Japanese stock market, which have enabled Japanese banks to raise their capital ratios and to use some of their hidden reserves to maintain earnings.

"Credit-quality measures by and large are very strong, and the Japanese banks well placed to pursue their policy of overseas expansion," IBCA said.

It said an important consideration in the ratings was the weight placed on the inherent strength of the Japanese system and the strong commitment of the Japanese authorities to the banks.

Standard and Poor's, the US rating agency, allots its AAA rating to only one bank, the Industrial Bank of Japan.

Moody's has five top-rated Japanese banks, similar to IBCA, except that it assigns Dai-Ichi Kangyo, the largest bank in the world in terms of assets, a top rating and not Sanwa Bank.

Swedish group buys St-Gobain filters arm

By George Graham in Paris

CAMFIL, a privately-owned Swedish filtration company, is to buy Sofiltra-Poelman, the industrial filters subsidiary of St-Gobain, the leading French glass and pipes group.

The acquisition will, according to Camfil, create the leading European industrial air filtration group, with combined sales of around FFr750m ($122m) and a solid presence throughout Europe.

Mr Jan Erik Larsen, Camfil's president, said the two companies were highly complementary, with Sofiltra mostly present in France supplying clean rooms to users in the fields of nuclear energy, hospitals and electronics. Camfil is more active in general filtration, with production sites in Sweden, West Germany, Switzerland and Ireland.

Mr Larsen said the air filtration market was expanding steadily, with strong demand from the electronics industry for clean rooms, but was not booming because of the increased enthusiasm for environmental protection, as some imagined.

Sofiltra, which made net profits of FFr12.2m last year, is 72 per cent owned by St-Gobain, with the remaining 28 per cent held by Soudure Autogène Française, a subsidiary of the Air Liquide industrial gases group.

Mr Larsen, whose group was advised by the Enskilda investment bank for the transaction, refused to disclose how much Camfil had paid, but said it represented a "fair market price."

Mel Brooks to take film company public

BROOKSFILMS, a US film company headed by Mel Brooks, said it planned to go public through an initial offering of 1.5m units at a price of between $9 and $11 apiece, Reuter reports.

Each unit, according to an SEC filing, will consist of one share of common stock and one warrant to purchase one-third of a share of common stock.

Enimont in limelight as Gardini guards his hand

By John Wyles in Rome

ENIMONT, the Italian public-private chemicals joint venture, looks set for a starring role on the Milan stock exchange this week because of serious doubts about whether Mr Raul Gardini's Montedison group ultimately intends to hang on to its 40 per cent stake.

Enimont shares rose 3.35 per cent to L1,470 last Friday after heavy trading and strong demand from London.

Investor interest was undoubtedly sparked by Thursday's statement from the Montedison board that "contractual relations between the two majority shareholders in Enimont must be the object of substantial, coherent modification to protect the interests of Montedison and of its shareholders."

As usual, Mr Gardini, whose Ferruzzi group controls Montedison, is whispering his intentions to no-one. Media and market speculation ranges from the possible sale of Montedison's 40 per cent stake in Enimont to BASF, the West Germany chemical company, to a Gardini stratagem aimed at gaining full control of Enimont.

The company was jointly launched at the beginning of the year with Eni, the state oil group, which put its Enichem subsidiary together with Montedison's base chemicals interests.

The capital gains resulting from transferring these Montedison assets to Enimont are at the bottom of the latest turbulence to hit the joint venture. For more than a year, successive Italian governments have promised legislation which would reduce Montedison's tax exposure on its capital gains from L1,100bn ($827m) over five years to L270bn over the same period.

Not a man famed for his depths of patience, Mr Gardini's wrath finally exploded last week when the lower chamber of the Italian parliament succumbed to the blocking tactics which have bedevilled the Government's tax proposal for much of the year. The Montedison board warned on Thursday that parliament's failure to adopt the legislation by the end of the year "would remove one of the bases upon which Enimont was founded."

The company pointed out that at the end of its operating year it had to know about its tax treatment to prepare a set of accounts.

Signs of menace from Mr Gardini's direction have brought the instant reassurances from government ministers that every effort will be made to pass the necessary legislation in time.

This means that resistance will have to be quelled among politicians in the governing majority about using tax favours to encourage industrial restructuring during a race against time to push the legislation through both houses of parliament. These are not circumstances in which the Italian parliament always gives of its best.

Australian bond buy-back plan

By Chris Sherwell in Sydney

THE Australian Government has unveiled details of its first reverse bond tender to retire federal government domestic debt, confirming its continuing withdrawal as a borrower and forcing a significant adjustment on the country's capital markets.

The reverse tender plan was first announced in the August budget, when Mr Paul Keating, the Federal Treasurer, foreshadowed a government surplus of A$9.1bn (US$7.1bn) for the financial year to June 1990.

The tender, a mirror image of a conventional tender, will start on December 5 with an offer to repurchase about A$150m in bonds.

An announcement said the Government would be seeking Treasury bonds of 13.0 per cent May 1991 maturity, 12.0 per cent December 1991, 12.5 per cent May 1992, 13.0 per cent June 1993 and 13.0 per cent February 1995. But it would reject offers it does not consider sufficiently attractive, even if this means the volume of repurchases is less than intended.

Although the repurchase is small, its significance is that it removes from the market government securities which the country's banks are obliged to hold to meet their liquidity ratios. With bank deposits generally rising, "it has all the makings of a squeeze," one investment banker said of the process.

The debt repurchases also raise important questions of monetary policy management for the Reserve Bank of Australia, the country's central bank. Mr Keating was reported to have said in London that the Australian Treasury bond market would end in three years, and to have indicated that a corporate bond market might replace it.

If this happens, the Australian Government would be breaking new ground internationally in the techniques of monetary management. But as far as investment bankers are concerned, they are expecting strong growth in Australia's corporate bond market over the next few years anyway.

This is not only because of the emerging shortage of federal government stock, reinforced by a similar trend for semi-government stock. It is also the projected result of a rapid growth in pension funds following recent government superannuation reforms.

Investment bankers say the only home for large volumes of investible funds will be corporate bonds and asset-backed securities.

Currently Australia's corporate bond market has more than A$5bn of securities on issue – a fast expansion since it began in 1987. But according to Dominguez Barry Samuel Montagu, a key player in the local market, institutional holdings of corporate bonds will increase dramatically to an estimated A$17.5bn by 1992.

UK COMPANY NEWS

BAT to take no action after advisers meeting

By Vanessa Houlder and Nikki Tait

BAT INDUSTRIES, the tobacco-based conglomerate which has been under bid threat from Sir James Goldsmith's Hoylake consortium, yesterday maintained that it did not intend to take any action as a result of certain matters discussed at a meeting of its financial advisers earlier this month.

The ideas aired at the meeting included the possibility of enlarging BAT, via acquisitions or joint ventures in the tobacco and financial services divisions; looking at a separate listing for BAT's US side; or "seeking to immobilise Hoylake or buy off Goldsmith".

The meeting also covered the potential for "driving a wedge" between members of the Hoylake consortium, or between Hoylake and Axa-Midi Assurances. Axa is the French-based insurance company which has been lined up as a buyer of Farmers Group, BAT's US insurance subsidiary, if a renewed Hoylake offer for BAT is successful. The previous offer has lapsed while Hoylake pursues certain essential regulatory consents in the US.

Ideas discussed at the advisers' meeting on November 14 came to light at the weekend, following the leak of minutes taken at the meeting to Mr Jacob Rothschild, one of the Hoylake consortium's members. The documents were sent in a plain envelope to Mr Rothschild's London office.

Yesterday, Sir James Goldsmith, currently in Paris, hit out at the implications of the document, saying, "Every one of these proposals served to entrench management and not enrich the business." The documents, Sir James said, would have to be put to the Takeover Panel, although he added that he would not want to pre-judge the watchdog's response.

Shareholders with 40% of capital back Pearl

By Ray Bashford

MR EINION HOLLAND, chairman of Pearl Group, said yesterday that he had received commitments from shareholders with over 40 per cent of the capital to oppose the £1.24bn takeover from Australian Mutual Provident.

These assurances of support have guaranteed a close finish to the eight week battle which ends on December 5 when the offer closes.

Pearl has opened a new front in its defence by enlisting the support of an all-party delegation of MPs who will meet Mr John Redwood, the consumer affairs minister, tomorrow.

In particular, the MPs will argue that it is against policyholders' interests because the takeover would allow AMP to use the Pearl's surplus funds to invest outside Britain through expansion into continental Europe.

The chances of Department of Trade and Industry intervention to block the takeover at this stage are slim, as the government body has already given approval for the Australians to pursue the takeover.

The key to the outcome is in the hands of institutions with about 12 per cent of the capital, which have declined to give commitments of support to either side. However, the AMP, which controls about 40 per cent of the capital, has the upper hand.

As another part of the defence, Pearl has said the bid undervalues the company. Mr Holland said the 690p share offer is at "a significant discount" to the combined valuation estimate of 765p a share, representing the value of each share based on present and future earnings as calculated by an independent actuary.

Tootal chief says no to a lower Coats bid

Mr Geoffrey Maddrell, chief executive of Tootal, yesterday ruled out accepting a substantially lower price from Coats Viyella, its fellow UK textile group, when it renews its bid.

His statement followed a report that Coats, which already owns 20 per cent of Tootal, will pitch its bid at around 100p a share. This compares with the 128p per share offer last May which lapsed while it was investigated by the Monopolies and Mergers Commission. Having obtained clearance to go ahead with the bid, Coats is now thought to be citing significant deterioration in the UK textile industry as a reason to reduce the offer.

Mr Maddrell said he saw no reason why the offer should be reduced. The period since the original offer had merely served to confirm the synergy between the groups, he said.

Robert Maxwell may bid for Monotype

Mr Robert Maxwell, publisher of Mirror Group Newspapers, is considering making an offer for *Monotype Corporation*, the typesetting equipment manufacturer which has agreed a £32m bid from King, Black & Associates, a US investment group, writes Vanessa Houlder.

Mr Maxwell said that he "may well be able" to bid for Monotype. "We are building an interest in the pre-press area....*Monotype might fit in*."

King Black's offer was "significantly too low", he said. "As a shareholder we will not sell at this price".

Mr Maxwell bought shares above the 150p offer price on Friday although his holding remained below five per cent. Monotype's share price climbed from 110p to 155p.

King Black, which provides technical support and capital to high technology companies *has* acceptances representing just three per cent of Monotype's shares. Its proposed deal with Monotype would be its first venture into the UK.

Ferranti rescue plan by former chairman likely to fail

By Hugo Dixon

A PLAN by Mr Sebastian de Ferranti to mount a rescue package for Ferranti International Signal, the troubled defence electronics company founded by his grandfather, seems to have run into the ground because of lack of support from industrialists and bankers.

The package would have involved bringing in a new board of directors to replace Sir Derek Alun-Jones, the current chairman and chief executive, and his fellow directors.

Mr de Ferranti attempted to attract Lord King, chairman of British Airways, to lead the new management team.

The idea was that Lord King would carry sufficient authority in the City so that funds could then be raised to plug the black hole that has appeared in Ferranti's balance sheet.

Mr de Ferranti also approached Mr Michael Richardson, head of corporate finance at NM Rothschild, the merchant bank, with the aim of getting his support for the rescue package.

Mr Richardson will have a key role in determining Ferranti's future because he is shortly due to take over as chairman of Smith New Court, the stockbrokers which acquired a substantial stake in Ferranti from Mr Jim Guerin, Ferranti's former deputy chairman.

However, Mr Richardson said Mr de Ferranti's plan was a "dead duck – certainly as far as Lord King is concerned and as far as I am concerned."

One problem with Mr de Ferranti's plan was that he is a non-executive director of the General Electric Company of the UK, which is one of several groups that have registered an interest in buying Ferranti. In order to get access to information about Ferranti's operations GEC has had to sign a confidentiality agreement and it might therefore have been thought that any separate initiative by Mr de Ferranti posed a conflict of interest.

Mr de Ferranti's rescue package might also have been seen as a surreptitious way for GEC to get some influence over Ferranti. It is thought unlikely that GEC would be allowed by the Ministry of Defence to buy Ferranti directly because of its dominant position in the UK defence electronics market following the acquisition of Plessey earlier this year.

However, GEC is believed to be anxious to prevent Ferranti falling into the hands of Thomson CSF, the French defence electronics company, and British Aerospace. These have formed a consortium to look at the possibility of acquiring Ferranti and are widely regarded as the front-runners to buy it, though it will be a couple of weeks before they decide whether to bid.

A watery issue: shareholders or consumers

Andrew Hill and **William Hall** analyse the problems facing the new regulator

THERE ARE two grounds for dismissing the new regulator of the privatised water industry: misbehaviour or incapacity.

Mr Ian Byatt – Director General of Water Services to give him his full title – doesn't look like the sort of person who is going to misbehave.

As a one-time deputy chief economic adviser at the Treasury, and the author of an academic tome entitled The British Electrical Industry 1875-1914, one would hardly expect him to.

Nor is incapacity likely to be a problem for the 57-year-old former economics lecturer.

That will be a *comfort* to those private and professional investors currently considering buying shares in the 10 water and sewerage businesses of England and Wales, because the new DG is the linchpin of the complex regulatory regime around which the industry revolves.

Analysts and institutions have taken considerable comfort from the wording of the Water Act, which says Mr Byatt's primary duty is to make sure the 10 former authorities and the 29 smaller statutory water companies can carry out and fund their water and sewerage functions. His principal weapon is the cap on water company price increases, which he will both set and review.

It sounds simple – and advocates of investment in water believe the Act ensures solid returns for shareholders.

And yet in spite of these apparent guarantees, Mr Byatt has already found himself at the centre of political and financial debate. Critics of privatisation have warned of the baleful effect a "hostile regulator" (hostile to the investor, that is) could have on the water companies' profits and dividends, if he was to place more emphasis on his secondary duty: to protect the interests of customers in terms of charges, quality of service, and land disposals.

Where on this sliding scale between consumers and investors do the first DG's priorities lie?

"In the long run my objective is to regulate the industry in the interests of the consumer," says Mr Byatt. "The investor is one of the providers of resources for the industry and is entitled to a fair return, but no more than a fair return."

In any case, he argues, the interests of investors and consumers are not necessarily in conflict. If customers want the environmental improvements demanded by the European Commission and the Government they will have to pay for them. The known capital expenditure programme amounts to £24.6bn in the next 10 years, funded by annual increases in water charges of at least 5 percentage points above the rate of inflation.

Try as he might, Mr Byatt is going to find it difficult to avoid the political limelight. The Labour Party, in particular, argues it will be able to change both the DG and his priorities if it gets into power. Mr Byatt is adamant about the DG's ability to resist political influence.

"I do not answer to the Secretary of State [for the Environment]. I am independent of the Secretary of State. I am responsible under the [Water] Act," he says.

A Government wanting a new regulatory framework, he adds, would need to pass legislation: "But it would still be faced with the question of where the capital funds were going to come from to finance the water companies' obligations in terms of drinking water and environmental quality."

He is clearly concerned – as are many in the British water industry, investors and operators – about the political maelstrom into which the 10 privatised companies are being thrown:

"The industry does need to be allowed to settle down. I would not like to see too much political uncertainty. I think it is important to concentrate on what it is people are getting out of the industry. What is the quality of water? What is the quality of our rivers and beaches? How much are people paying? What is the standard of service like? How many complaints are there and how are they being dealt with? I would like to see attention concentrated on that rather than the highly political issues, such as the precise ownership of the industry."

But the political debate extends beyond the fundamental pros and cons of privatisation. It includes worries about the so-called "cost pass-through" mechanism, which allows the DG to pass certain unexpected costs straight through to the water consumer in the form of higher charges.

Mr Byatt is worried about it too. Were cost pass-through to become a substantial item, the DG believes there would be "insidious pressures" dragging the innovative British regulatory framework towards a US-style system. Utilities there have found themselves restricted by annual regulation on the basis of return on capital.

Discussion of the task confronting the DG keeps coming back to definitions of the limits of his position and duties.

Mr Byatt has already said he wants to be an arms length regulator. With only 100 staff he may have little choice. But he believes examination of selected indicators – service and quality standards, for example, and efficiency of capital expenditure – will enable him to decide, after 10 years, or five years if requested, whether price caps should be loosened or tightened. "If there is a five-year review," he warns, "it is not going to be there to put right a company's mistakes."

As to what constitutes a reasonable rate of return, Mr Byatt says, "I do not have a figure in my head. I want to keep my eyes open and see what kinds of numbers begin to emerge from the City."

This is characteristic of the flexibility of Mr Byatt's Birmingham-based office – "I genuinely want it to be an open system" – which he says will draw on the advice of merchant banks (on the cost of capital), of industrialists and of 10 customer service committees.

So when will the water customer know whether Mr Byatt is succeeding in his task?

"We need several years to tell how the regulatory regime is working. By the time we get to periodic [five-year] reviews we should know better," says Mr Byatt.

He is neither afraid of the formidable challenges he faces, nor disheartened by a rate of pay – between £50,000 and £60,000 – which barely recognises the importance of his role:

"There are still people who are prepared to work in the public sector for less than they get paid in the private sector. I wanted to do this job. I have specialised in public utilities all my working life. This is a real opportunity for me to put into practice – in specific rather than in general areas – the types of things I have been thinking about and working on."

FINANCIAL TIMES STOCK INDICES

	Nov 24	Nov 23	Nov 22	Nov 21	Nov 20	Nov 17	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs.	84.10	83.70	83.66	83.50	83.50	83.71	89.29	83.50	127.4	49.18
Fixed Interest	92.80	92.71	93.17	93.13	93.29	93.33	99.59	92.71	105.4	50.53
Ordinary	1754.9	1754.1	1734.4	1731.9	1734.1	1769.3	2008.6	1447.8	2008.6	49.4
Gold Mines	296.7	291.4	290.5	282.8	274.1	265.6	296.7	154.7	734.7	43.5
FT-Act All Share	1114.00	1113.02	1101.79	1098.59	1098.62	1115.15	1225.80	921.22	1238.57	61.92
FT-SE 100	2222.4	2220.5	2192.3	2185.1	2183.1	2221.4	2426.0	1782.8	2443.4	986.9

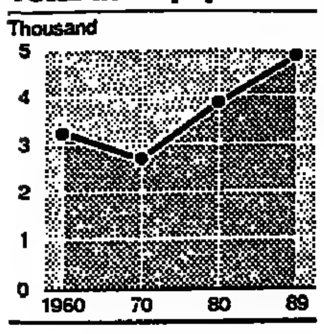
FINANCIAL TIMES SURVEY

In the mid-80s, one of Britain's smallest Caribbean dependencies was rocked by political scandals. For the Nineties, the islands have pinned their economic future on offshore finance and tourism. **Gordon Cramb** analyses the prospects in this survey.

Turks and Caicos

☐ **Total revenue expected to flow into the Treasury during 1989/90 is $44m, almost double the amount during 1980/81. Of this $2.2m ($139,000) is expected from company registrations and 1.7m ($60,000) from tourist levies. This increased revenue has meant that the islands' economy has achieved a turnround in the last year taking the dependency out of the most literal meaning of that word. Mr Oswald Skippings, Chief Minister, believes that investor confidence has been restored after the traumas of the mid-1980s. The economic outlook is discussed by Gordon Cramb on Page 2.**

Total adult population



KEY FACTS

- ☐ **Area:** 430 sq km
- ☐ **Population:** 13,000 (est 1989); 7,413 (1980 census); Economically active 2,909 (1980 census)
- ☐ **Chief Minister:** Oswald Skippings
- ☐ **Currency:** US dollar

Two-lane road to better times

MORE THAN 30 channels of satellite television reach the Turks and Caicos Islands; there is not one bookshop. Fisheries form its only productive industry, yet local hoteliers find it easier to serve lobster flown frozen from Miami. Wild donkeys meander the main street of Grand Turk, the capital, which is establishing itself as an offshore finance centre.

These are only the most visible of the contradictions which surround the islands, one of Britain's smallest and least developed Caribbean dependencies, as they enter the 1990s. The new decade offers a few avenues towards greater *self-reliance. It should also* leave behind a period when local politicians were discomfited by scandal, and overseas investment — from resorts to reinsurance — was set back as a result.

Beneath the surface peculiarities of this tiny territory lie more enduring questions about its future. Although a better economic showing has just ended a reliance on the UK for an annual cash injection to balance its books, capital aid for development costs Britain at least $5m a year and is this year being bumped up to nearly $24m. And while economic independence is the goal both of London and of the colony's own elected leaders, political independence is by common consent at least 10 years off.

In the interim, British officials will have to maintain their patrol of a local political arena which, in spite of a two-year suspension of elective government from 1986 and a change in ruling party, is still pitted by allegations of patronage and cronyism.

The Turks and Caicos nestle at the south-eastern end of the Bahamas chain, with which they were federated for most of the last century. Their less than 200 square miles of flat, scrub-like land area is spread among some 40 islands and smaller islets, or cays — hence one part of the territory's exotic name, given by early Spanish explorers. The other comes from the fez-like red flower on the Turk's Head cactus, which grows determinedly in its otherwise inhospitable soil.

A population of about 13,000 is concentrated on six main islands, but their number is said to be matched, if not doubled, by those who have moved away to seek the employment which they are unable to find at home. Some of these, like construction workers in the Bahamas, will in a pithy TCI saying be "boiling two pots" — living abroad temporarily while remitting money to the family they have left behind. Others, particularly the brightest who have turned to a US college for the tertiary education which is also unavailable locally, are gone for good.

Hopes of advancement for the islands lie in two main directions. One is offshore finance, a business developed in Grand Turk during the 1980s by small firms of largely expatriate lawyers, bankers and accountants attracted by the the absence of tax and the TCI's use of the US dollar as its currency. The financial sector is now to be put on a more regular footing with a package of legislation intended to be in place by the end of the year.

From the islanders' point of view the industry will never be a mass-scale employer, while the professionals who are its motive force will need to assess in what areas they can best compete against more established jurisdictions in the Caribbean and elsewhere. At the same time, the newly ensconced regulators have a delicate job in keeping things clean — but not throwing the baby out with the bathwater.

The other way forward for the TCI is in tourism. Its impact, negligible at the beginning of the 1980s, has already transformed Providenciales, the westernmost inhabited island and known as Provo, since club Méditerranée picked it as the site for a holiday village which opened five years ago.

As if in recompense for their unappealing inland vegetation, the islands have been blessed with spectacular coastlines of pale, fine sand. A narrow range of temperatures around the mid-80s and low humidity also help.

With coral reefs giving way to a sheer ocean wall, the TCI is regularly ranked by diving enthusiasts as one of the world's top five locations — a specialist market which helps even the spread of business outside the peak winter vacation months.

While Grand Turk remains a village, Provo has become a full-blown resort, with new hotels opening each year. It has also brought soaring prices for residential land, and Provo is enthusiastically described by the largely American property investors there as "the new Grand Cayman". But an adequate secondary market for housing has yet to emerge, and a standard 30 per cent discount which developers offer to those with TCI resident status suggests that asking prices may be somewhat inflated.

The growth of Provo has not been without its problems. Labour has drifted there from the other islands, but jobs in the tourism business are often seasonal and sporadic, and construction projects have been prone to lengthy delays. An attempt is being made to restart work on a half-built Sheraton, while a Ramada hotel is due to open next year, also behind schedule.

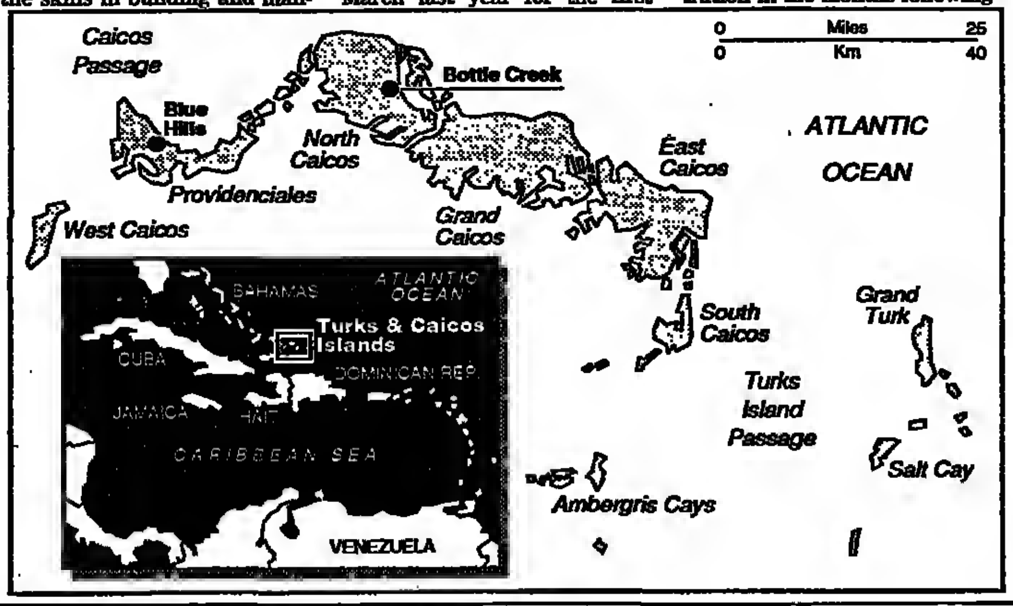
Mr Oswald Skippings, the islands' Chief Minister, believes such troubles are now over, and sees a restoration of investor confidence after the trauma of 1985 when Mr Norman Saunders, his predecessor but one, was arrested in Miami and convicted on charges involving the receipt of drug-related funds.

Mr Skippings is happy with *the level of development activity* taking place but is concerned that it is concentrated on Provo — where he says saturation will be reached "only a few years down the road" — and that not enough is being done to pass on to islanders the skills in building and management which the projects require.

"I am sure the private sector will inevitably play the leading role in terms of bringing about the infrastructural change that we need to undertake," he said. But he added: "It is not our intention to let development take place around us. Our people must be participants, must be involved. If they are not *qualified to participate then* they have to be trained, and that is also one of the areas where we request the investors to assist."

The People's Democratic Movement (PDM) led by Mr Skippings came to power in March last year for the first time since 1980. Its landslide victory, taking 11 out of the 13 elected seats in the Legislative Council, came in spite of British constitutional attempts to provide a more diverse range of voices in the islands' assembly. In the two-party system which has emerged in the TCI, support for the government of the day has often been rewarded with individual *favours*, while those loyal to the opposition have been commonly excluded from jobs, public sector contracts, and allocations of Crown land.

Political strife reached its height under the Progressive National Party (PNP) administration in the months following Mr Saunders' arrest. It led to a commission of inquiry conducted by Mr Louis Blom-Cooper, the British barrister. His report reads like a tropical thriller, with chapter headings such as "Corruption at the cemetery wall" — and it accords a key role to Mr Skippings, the then Leader of the Opposition, against whom be found "a strong prima-facie case ... for incitement to commit acts of violence".



The episode, involving the New Year's Eve arson of a government building in Grand Turk, did not prompt criminal charges, and the commission held that he and the PDM "must not be deprived, or appear to be deprived, of any opportunity to become the elected members of the Turks and Caicos Islands Government".

And so it was. Mr Skippings, once the West's youngest head of government, is still only 36 and, when asked to reflect on his role in the upheavals, denied violent intent but acknowledged: "We get older, we get wiser."

Although the UK is now exercising tighter financial controls, independent observers of the political process in Grand Turk believe the territory has some way to go before it will be rid of abuses, and the PNP contends that little has changed except the party in power.

Mr Alden Durham, Leader of the Oppositioo, admits of his party's own last period in office, "We really messed up."

Continued on Page 2

THE ECONOMY

Dependent no longer

SMALL DOES not equal beautiful in the Turks and Caicos, although the islands themselves are both. Not only are government revenues inadequate to generate big infrastructural development from its own resources, but the economy can be swung pivotally by just one direct investment commitment from outside.

By the same token, the territory is exposed to any world downturn in tourism activity, which sustains many islanders.

The TCI has been bereft of commercially-extracted natural resources since the salt industry collapsed in 1964. Since then the colony has been left in an ultimate double-bind: on the one hand, there is little land which is both arable and served by freight transport to ship produce out, and there are no economies of scale to facilitate manufacturing for local consumption.

On the other hand, the resulting import dependence means high prices – nearly everything, from milk to machinery, comes in through Miami. This, in turn, forces up wages.

The protection against adverse foreign exchange movements the islands gain by using the US dollar as their currency, is offset by the immediate cost disadvantage which faces potential new industrial projects when compared with nearby low-pay economies such as the Dominican Republic and Haiti.

Illegal migrants, who slip in notably from those two countries only 90 miles to the south, provide a further distorting influence, accounting for perhaps 10 per cent of the total non-tourist population.

But, it is acknowledged unofficially, they help the hotels business and basic services to function by their willingness to accept labouring and cleansing jobs which "belongers" often shun.

That is not to say all islanders are comfortably off. There are no official figures for average wages, but estimates range from $100 a week upwards. Although poverty is not greatly in evidence, unemployment is conservatively estimated at 12 per cent, a picture which is certainly worse on some islands and which is exacerbated by the virtual absence of welfare benefits.

Nevertheless, the TCI economy has achieved a turnround in the last year which is hailed alike by local politicians and London-appointed civil servants. It has brought the dependency out of the most literal meaning of that word – for several years at a stretch British funds were required as direct budgetary aid, merely to redress an annual and recurring excess of expenditure over incomings.

Budgetary aid, which reached a peak of $3m in 1986-87 while the elected government was suspended, was eliminated by this April.

Government revenue and expenditure (US$m)	1980/81	1985/86	1986/87	1987/88	1988/89	1989/90[1]
Total revenue	7.355	18.552	17.199	18.081	24.148	44.360
Recurrent - Tax	2.269	7.072	8.483	10.526	13.242	18.028
Import duty	1.651	4.124	4.566	5.874	7.222	9.000
Export duty	0.72	0.130	0.175	0.148	0.140	0.140
Company registrations	0.139	1.129	1.414	1.555	1.800	2.200
Communications tax		0.054	0.228	0.252	0.280	0.330
Stamp duty	0.289	0.830	1.157	1.294	1.800	1.820
Tourist levies	0.060	0.379	0.505	0.739	1.300	1.718
Work permits	0.059	0.426	0.439	0.665	0.700	0.820
Recurrent - Non-tax	2.914	2.942	2.413	2.505	4.403	4.266
Rents	1.049	0.934	0.257	0.222	0.320	0.402
Fees,sales	1.556	1.912	2.064	2.162	3.983	3.714
Fines & forfeitures	0.309	0.096	0.092	0.121	0.100	0.150
UK budgetary aid		2.572	3.016	2.022	0.237	
UK technical co-operation		0.044	0.033	0.137	0.130	0.143
UK development aid	2.171	3.921	3.254	2.892	6.136	23.780
Other	0.044	0.070	0.017	0.013		
Total expenditure	9.151	16.539	16.756	17.824	23.691	43.990
Recurrent expenditure	6.891	12.981	13.266	14.702	17.315	20.032
Wages & salaries	3.915	8.269	7.266	7.466	8.849	10.652
Other services	2.570	4.729	4.293	5.842	6.914	7.644
Interest	0.123	0.453	0.445	0.486	0.362	0.374
Subsidies	0.235	1.319	0.802	0.392	0.587	0.699
Other transfers	0.048	0.211	0.461	0.518	0.602	0.662
CDB[2] subscriptions etc	0.008	0.007	0.005	0.069	0.111	0.038
Total capital expenditure	2.252	3.551	3.498	3.053	6.266	23.923
Recurrent revenue Less Recurrent expenditure	−1.718	−0.401	0.642	0.262	0.457	0.227
Total capital receipts Less Expenditure	−0.037	0.484	−0.164	−0.011		

1. Estimated; 2. Caribbean Development Bank

Other forms of financial support continue, through small amounts from the European community, Canada and the Caribbean Development Bank (CDB), as well as British capital aid where development grants are being nearly quadrupled in the current year to an exceptional $23.8m from $6.1m. Such support is common, though, to most of the UK's overseas territories, whereas the former yearly injection to balance the TCI government's books was both unusual and clearly a discomfort to Whitehall.

According to CDB estimates, growth in TCI gross domestic product, which hit a peak 29 per cent in 1985 just before the impact of that year's political turmoil, slipped back to single figures before rallying strongly last year for a rise on 1987 of 24.5 per cent. Total GDP for 1988 stood at $63.1m.

The revival was assisted in delayed form by the establishment in 1984 of the Club Méditerranée resort on the until then neglected Providenciales, the westernmost inhabited island of the TCI chain and now the focus of numerous upmarket tourist hotels as well as condominiums and villas.

Islanders and expatriates alike accord credit not so much to the French company itself, which has a penchant for pioneering undiscovered locations and was plied with elaborate concessions.

Rather, it required what is now seen as a leap of faith among British officials who committed funds on a previously unheard-of scale to accommodate what would be previously unseen numbers of visitor arrivals.

The funding, used for infrastructural needs such as upgrading the airstrip and roads, led at one stage to strident questioning by British parliamentarians in the House of Commons Public Accounts Committee.

The decision was vindicated. Club Med was followed by a stream of other developments. The direct inflow into government coffers from tourist levies, from a barely significant $60,000 at the beginning of the decade, by two years ago was running at 10 times that level and is forecast to reach $1.7m this year.

By this measure the income from company registrations is in fact larger, at a projected $2.2m for 1989-90. But the contribution the labour-intensive tourist business makes to the wider economy is far more thoroughgoing.

Stricter controls on public sector purse strings have also helped. The 1986 commission of inquiry into alleged corruption and other malpractices under the then Progressive National Party government found that "the Public Works Department wages bill has in the past been grossly inflated" – by taking on more people than were needed, in a type of unofficial social welfare mixed with political patronage.

When elected government was restored in March 1988, not all their previous powers reverted to ministers. Crucially, the Governor and his officials now have direct responsibility for public service appointments.

The increase in development activity on the islands has meant that the government wage bill is set to top $10m for the first time this year, having roughly trebled over the decade. But proportionately less of locally generated revenues (ignoring the UK contribution) is immediately going out again to its own employees. At the start of the 1980s public sector pay was absorbing more than three quarters of what the islands were earning by that measure, and in 1986-87 was still taking two thirds. Last year it was down to barely half, and the forecasts for 1989-90 indicate that wages and salaries will require an only slightly higher 52.5 per cent of recurrent revenue.

A further contributor to the financial turnround has been privatisation. The scale, as always in the TCI, has been limited, andbut one significant move came in 1986 when the authorities moved to shed their lossmaking utility interests.

In one instance Mr Bob Blanchard, a Florida businessman who already owned the power generators on Grand Turk, took over the transmission and sale of electricity on that island for a nominal $1 payment. But the company has since invested $1.25m in upgrading equipment, the annual saving to the government is put at around $1m, and service is by common consent far better.

Trends in power consumption provide only a rough guide to economic development as a few of the very largest users have licences to generate their own private supply. Nevertheless, electricity use grew 13.4 per cent last year.

Cable and Wireless of the UK, which runs the territory's telephone system, showed a similar 16.3 per cent increase in metered usage with the number of subscribers growing at an even faster rate of 25 per cent.

Road to better times

Continued from Page 1

but claims that certain public officials "have recommitted themselves to these things on a much grander scale".

The Chief Minister has capitalised on the PNP's drug associations to take a hard line on the narcotics trade – calling for the death penalty to be imposed for traffickers. The British Government would be unlikely to countenance the granting of such a power, although the TCI does nominally retain hanging for certain forms of murder.

The islands' association with the drugs business has a long history, but its present extent is more difficult to measure. Washington officials decline to single out the TCI as any more than one of several Caribbean locations which have been used as trans-shipment points. Surveillance has been stepped up, but use of the potent form of cocaine known as crack has recently become evident in Provo, indicating that supplies are still finding their way through.

Keeping out drug-generated cash is another concern, but one which those involved in the TCI financial sector say they have amply addressed through limits on deposit-taking.

They argue that they cannot afford any sort of scandal, involving drugs or otherwise, because new business would collapse in the same way it did four years ago. "That has receded into history," says Mr Christopher Coriat, a lawyer active in the colony's growing work in offshore company formations.

Drugs surveillance has been stepped up, but use of the potent form of cocaine known as crack has recently become evident in Provo

Not everyone is convinced that the new legal framework will provide a sufficient safeguard against abuses. One leading sceptic is Mr Liam Maguire, a California-based entrepreneur and former TCI government minister. He describes some finance dealings in the islands as having had "a stench that reached Los Angeles" and adds: "Anybody who is talking about the financial future of this place should not talk about the introduction of capital, but about the introduction of ethics."

In the hothouse that is Grand Turk's business and political world, such sentiments are not popular. Dissent is discouraged, past lessons often seem ignored.

Although the integrity of most who work there is beyond doubt, the expatriate community and the TCI's own leaders may need to concoct a rare blend of unanimity, vigilance, and a greater degree of tolerance if these distant, flat smudges of earth are to gain international allure as anything more than a seven-day package suntrap.

UK RELATIONS

Bond forged by necessity

A DECADE which began with Britain planning big development aid projects, intended clearly as a going-away present, had its heated climax in 1985-86 with a stern reassertion of parental control, and will end with the Turks and Caicos, if anything, further from independence than 10 years ago – and quite happy about it too.

The islands gained their own constitution only in 1976 after periods of attachment variously to the Bahamas and Jamaica. From this history the only residual tie is one of legal redress through the Court of Appeal in Nassau.

For TCI "belongers", the bond to the UK is forged by necessity rather than emotion. Policy initiatives which emanate from Whitehall are sometimes seen locally as remote or misguided, but on the whole the relationship seems valued not just as a source of aid, but also as a cautious countervailing force against any excesses on the part of their leaders.

This, in turn, is born from the islands' short and, so far, sorry experience of elected government. A two-party system has developed in which the sides have almost indistinguishable views on policy but cannot be reconciled on a personality level. A change to multi-member constituencies, intended to provide a more even representation in the Legislative Council, instead resulted last year in a landslide victory for Mr Oswald Skippings' People's Democratic Movement, and Britain may need in the future to consider other constitutional means towards greater political accommodation.

In a rare example of unanimity, there exists an unwritten moratorium among rival political leaders not to campaign for independence. The pact, reached during the suspension of elected rule ahead of last year's election, is said by all to be good for about 10 years.

In law-making by the TCI government, officially the UK approach is one of "non-disallowance" whereby legislation emerges from the will of Legco, as filtered through the Executive Council where Britain's interests are represented by ex officio appointees. In practice, however, Britain through the Governor retains wide-ranging direct powers relating to the peace and good order of the territory. Among other things, development projects of any size are also referred to London.

This last power largely reflects the prevalence of Crown land, which London is willing to see alienated only if it is developed in a way that can be said to benefit the community. Residential title is granted on a so-called conditional purchase lease, and deeds are transferred only when a dwelling has been built. A similar arrangement applies to commercial projects, although freeholds are by no means as readily available.

In each case there have been abuses, usually involving the procurement of islanders to act as "front" for a foreign purchaser, but such transfers are being more closely monitored than in the past. But there remains, whichever of the two main parties forms the government of the day, a belief among islanders that its supporters will be the more favourably treated.

Given the directness of the UK relationship, TCI links within the region are patchy. Ministers participate in Caribbean government conferences, and the territory is a member of several organisations including the Caribbean Development Bank – where it has recently regained a better credit standing after a poor repayment record inhibited the granting of new loans between 1981 and 1988.

In trade, there has been little need for a strong regional bonding as the islands are not export suppliers of goods or produce except seafood. The chief export of the Turks and Caicos has, in fact, been labour, particularly to the Bahamas where young people have gone in their thousands to seek work. Unskilled labour is also imported, notably building labourers from Haiti on short-term contracts, plus a swathe of illegal migrants from there and the neighbouring Dominican Republic.

The TCI government is unhappy about this two-way flow, with the loss of its young adults on the one hand, and on the other the social tensions it believes the influx is causing. But in the absence of more consistent employment prospects for its own populace, ministers appear to have little remedy.

Further afield, the main day-to-day ties with the UK on a governmental plane are paralleled by the pervasive influence on the islands of the US. This occurs:

- On an economic level, as the dominant trading partner and through the islands' use of the US dollar, as well as in the significant receipts derived from US tourism, property purchases mainly on Providenciales, and offshore financial transactions.
- Culturally, through the American television networks which are received via satellite into most homes.
- In law enforcement, because of Washington's wish to oversee policing of its perceived "back yard".

In the 1950s to 1970s the US used Grand Turk as an armed forces base, but satellite tracking and other technological developments eventually led to the withdrawal of this presence. The main sphere of operations now is in the offensive against drugs.

Anglo-US agreements have spawned a spotter plane and patrol boat to detect supplies being dropped in the area from light aircraft.

As a deterrent to drug-related funds, TCI financial institutions have agreed a code of practice which limits cash deposits to $5,000, half the level which is permitted in the US before federal alarm bells ring.

BANKING AND FINANCE

Thriving haven for companies

OFFSHORE FINANCE business is intended to provide the second of the twin tracks to economic growth for the Turks and Caicos, with the authorities and local private sector professionals hoping that the passage of new banking, insurance and trust legislation will accord the islands' financial sector the same cachet that the TCI tourism industry already enjoys – as an exotic location, undoubtedly, but one which is secure.

After some delay, the new legal package is expected to be complete by the end of the year. To a large extent it will update and codify existing practice in a sector which has grown from nowhere during the 1980s and, for all its lack of regulation, has remained strikingly free of public scandal.

A handful of small banks has collapsed over the past several years, causing some local distress, but their international involvements were minimal. The sector's main, and painfully felt, setback was external – the implication of senior ministers in drugs and malpractice during the middle part of the decade resulted in unsurprising, but none the less unwelcome, publicity from which the business is only now recovering.

Financial practitioners in the capital Grand Turk, while insisting that there was no marked outflow of client funds at that stage, widely acknowledge that the episode did bring new business screeching to a halt.

Existing banking laws had in any event inhibited the large-scale arrival of fringe or brass-plate institutions. There are only five groups sanctioned to perform any form of mainstream banking activity.

However, the islands have developed a thriving line in related areas, primarily company formation, trust business, and certain specialised forms of insurance. Central controls bere have until now been all bnt non-existent. One choice which thus arises is whether the TCI graduates to become a full-line offshore centre or concentrates on areas where it has proven success. A related question is whether the new laws and their accompanying regulations – still unseen in their final form – might yet stifle the infant.

Mr Derek Sambrook, the newly-installed supervisor of the offshore finance unit, has spent the last 10 years as a practitioner in that industry, most recently with a private trust company in the Isle of Man. He confesses to being the archetypal "poacher turned gamekeeper" before anyone else can pin the label on him, but goes on to issue a more pointed warning about the background he brings to his job. "While any private sector delights in saying, 'Fine, we have a supervisor we can relate to', they must also realise they have someone who knows all the tricks – or at least a considerable number of them."

He is charged with the dual, some would say invidious, role of regulating the offshore centre internally and at the same time promoting it abroad. He and others in the administration speak earnestly of the need neither to over- nor to under-regulate an industry which will have a hard enough time convincing potential investors that the TCI offers a safe but responsive haven into which to spread risk, without becoming the next natural home for other people's rejects.

Financial practitioners argue that the small size of the community itself limits wrongdoing. "It is relatively easy for someone to get a bad reputation down here," says Mr Joe Connolly of Coopers and Lybrand, the only big accounting firm with a direct presence on the islands. "The grapevine works, and things are reported to government."

But Mr Sambrook, while expressing a favourable opinion of the financial professionals he has met during his first three months in the job, acknowledges readily: "Our credibility is eggshell thickness."

Adding that his unit is already forging links with British and US regulators to check the past and present standing of companies and individuals, he is determined that "in the first year especially we have to tread lightly. We can't afford to make mistakes."

Scrutiny of the TCI plans has also become rather more intense since the financial sector in Montserrat, another British dependency in the region and of roughly equal size and sophistication, was this year blinded by a Roman Candle of exploding fringe institutions. The Montserrat collapses have seriously set back that territory's aspirations as a Caribbean banking centre, arguably providing the TCI with a vacuum to fill just as the British Virgin Islands picked up considerable business from 1985 onward which might have gone to the Turks and Caicos had its political reputation been better.

Those seeking a banking or insurance licence will need to submit:

- A business plan indicating their intended areas of operation;
- An explanation why a base is being sought in the TCI;
- Balance sheet details with two years' forward projections; and
- Directors and shareholders to e vetting procedure.

Even before the new ordinances are in place, large institutions are coming forward. Toronto Dominion Bank, the Canadian banking group, was earlier this year granted a licence, joining its long-established compatriot, Bank of Nova Scotia, which shares the islands' retail banking business with Barclays of the UK.

The locally-managed Turks and Caicos Banking Company, controlled through a Liberian company, and the Providenciales-based West Atlantic Bank and Trust also operate in the territory but their clientele is hand-picked. According to Mr Anton Faessler, the Swiss-born managing director of Turks and Caicos Banking, "We don't accept cash deposits. I don't accept anybody I don't know with a suitcase of money."

No US banks are yet represented on the islands, despite the American dominance of tourist traffic, nor does Toronto Dominion intend to set up a high street presence. Officials at the bank's Canadian headquarters say the new entity will be a deposit-gathering operation for large-scale commercial funds, similar to an existing unit it has in the Cayman Islands.

In addition, one respected but still unnamed private foreign banking group has, out of a number of inquiries, come forward with an offshore licence application which the authorities say meets their preliminary requirements. These are likely to begin boosting the aggregate deposit base for Turks and Caicos banking institutions which, after e 23 per cent leap in 1987, showed slower growth last year, rising 8 per cent to $72m.

Outside banking, the TCI have developed a thriving line in corporate formations, with the emphasis on speed of service. A new company can be registered within a day, compared with up to a week in some other offshore jurisdictions where proposed names have to be cleared laboriously. Of the 1,444 registered last year, nearly all – 1,174 – were classified as exempt or foreign, categories which also now make up nearly three quarters of the total 6,729 companies with a TCI registration.

This should remain a growth area even if the islands have come too late to mount an across-the-board challenge to full-service offshore locations.

If niche activities outside banking proper are to be the TCI's way forward, one local firm has staked out what it claims to be a world number one position, which would be the territory's first such title in any financial segment. Mr Reg Bodhanya, managing director of Morris Cottingham, an accountancy-based practice which through other offshoots is also active in corporate and asset management, says that his group represents some 700 credit life assurance companies in the US out of about 800 registered in the TCI, a figure which last year surpassed the number incorporated in Arizona, the previous favourite domicile.

These are short-term life policies which car dealers typically require their private, hire-purchase customers to take out for the period of the loan. The risk is undertaken by a US insurance major but laid off partially through reinsuring in a tax-efficient jurisdiction elsewhere. At this stage the vehicle dealership, having collected a small and regulated commission as agent for the original policy, can get back in on the act. Larger dealers have been frequently emerging as part-owners of the reinsurance companies – which may sound like bringing the liability home to roost but instead usually offers a further profit slice to the motor showroom. Mr Bodhanya believes as much as half the entire US car market is now covered in this way.

This very specialised sector makes up the bulk of the insurance company registrations in the TCI, and most of the few dozen others are expected to depart rather than face regulation.

TOURISM

Tranquil and friendly destination

THE SWANEES (flamingoes) might be less in evidence now than when the early British explorers came to the islands *en route* to America, but in just the last few years the sun-seeking tourist travelling down from the US and Canada has "solaced himselfe ashore" in rapidly increasing numbers.

The *friendly disposition of* TCI "belongers" is one of the territory's best selling points. It is being marketed as a tranquil, top-drawer destination and, following a successful breakthrough in North America, is beginning to attract European interest despite, or *perhaps because of*, its relative inaccessibility. Those who have favoured the islands with a visit range from the ruling family of Qatar to pop star Michael Jackson.

Mr John Hastings, the islands' tourism consultant, estimates that visitor arrivals, numbering 47,000 last year, should be roughly matched this year before picking up again to 75,000 in 1990 and as many as 100,000 by the following year, by which time the available hotel capacity should have been expanded by a series of new developments in Providenciales, the main destination, and elsewhere.

If Providenciales did not exist, the world tourism industry would arguably have found it necessary to invent it. Indeed, in many ways it has. The island has become a retreat for the worldly-wise as well as a treat for divers in search of the netherworld. The beaches, a rim of narrow but perfect cream, remain joyfully unclotted with human hordes.

Grand Turk remains a village, for all its government activities and offshore finance ambitions, not to mention its own stunning beaches and, the experts say, even better diving. Provo – the shorthand is more frowned on by the purists of the capital than by Providencialians – is a resort, and the contrast is distinct.

It has become so in the short space of five years, is now adjusting to that spurt of growth, and wondering when and how the infrastructure will catch up.

British development aid to the tune of $15m is this year being used to resurface the island's airport runway, a source of some pleasure to those in the soaring local property sector who were becoming worried that Whitehall might *have regarded such infusions* as an historical one-off of the early 1980s. But neither police nor medical services are keeping pace with the growth of Provo's permanent as well as tourist population, and roads are poor.

Mr Washington Misick, an islander and one of Provo's leading real estate brokers, is concerned about untrammeled development and criticises the quality of some earlier projects. He adds: "The government should now insist to developers that subdivisions have better roads and facilities before the lots are sold on.

The issue is important because the islands aim to nurture a large number of permanent home-owners in Provo, even if they are not permanent dwellers there, through the development of condominiums and villas to balance the short-stay hotels. This would not only lend some stability to the population, but also provide a degree of immunity to a downturn in holiday bookings.

The government's document on tourism policy, approved last year, says it "recognises that tourism is a fragile and sensitive industry, influenced by economic recessions in source countries, by the fluctuations in international currency values, by the changing fashions in international tourist demands, and by the sense of security and personal safety created in destination countries."

Security and safety have helped make the islands popular compared with more troubled destinations in the region such as Nassau. There are still fewer than two crimes a day of any sort reported across the TCI (the police force numbers around 100). But crime has grown in Provo, doubling over the past two years. Club Méditerranée recently put locks on its guest-room doors for the first time.

Nevertheless, five years since it opened, Club Med Turkoise has established itself as one of the most popular villages in the French company's American sphere of operations – and, it is said, the most profitable, turning over $1m a week in its winter high season which has just got under way.

It has a capacity for 620 *gentils membres* or guests. Although not yet officially announced, plans are fairly firmly in train to add another 100 beds within the next year.

During the cheaper summer months the resort attracts a substantial proportion of holidaymakers from Europe. Many of them are also attracted by the club's dive operation, the *biggest of any Club Med location* and able to take 150 people underwater for three dives a day. For the rest, the 600 metres of beach which fringes the club provides ample space to spread out – although it remains Crown Land and is thus not exclusively reserved *for the club, at this stage in the* development of Provo there remains more room than on many of the group's private beaches elsewhere.

Despite this, as the TCI's first big resort, Club Med has been watched closely by the islanders, with some resentment about the exclusivity of its other facilities. But barriers are beginning to come down – recently launched weekly soccer games have given Provo players access to the island's only grassed pitch, while out of 190 local employees, three have now graduated to *gentil organisateur* status allowing them transfers to Club Med operations abroad.

The dependence of the Turks and Caicos on US imports has meant that, as a holiday destination, it has not sought to compete on price. The latest Club Med brochure provides a rough index – of its eight Caribbean villages, Turkoise is easily the most expensive. Excluding air fares, a week at the February peak rate costs $1,350 per person for double occupancy, some $150 more than Guadeloupe, the next dearest, nearly a third higher than the average, and close to double the rate for Haiti.

Nor is price competition expected to develop to any great extent within the TCI. A spate of new hotel developments under way will emerge at the premium end of the market at $100 a night and up, with little incentive for undercutting.

The first of these, due to open next year, will be the Ramada Turquoise Reef, with *conference facilities* and the islands' first casino. The 235-room complex, just to the west of Club Med, was originally due to start business next month but has been hampered by construction delays.

These are nothing compared with the funding problems which have bedevilled Provo's proposed Sheraton development, a 229-room hotel where work has been halted for the best part of two years. York *Minster Atlantic*, the owner, says a refinancing of the $30m project is coming into place and the new target for completion is early 1991.

A casino is also planned for the Sheraton, and for each of two hotel sites on Grand Turk. If either is completed – and it *is believed locally that* only one will be – it will transform both the visitor facilities and the local economy of the capital. Business visitors are currently reliant on family-run hotels which can be as small, but colonially charming, as the Salt Raker Inn with just nine rooms.

A 200-room establishment to be managed by the US Radison chain was by this month more advanced in planning than a rather larger development of more than 400 rooms put forward by a Nevada-based consortium. Construction work has yet to begin in earnest on either.

Turtle Cove Marina, Providenciales: the island is a retreat for the worldly-wise

The sixth of July we came to the Island Caycos, wherein Fernando sayd were salt pondes, assuring us if they were drie, we might find selt to shift with, until next supply; but it proved *true as finding sheep at Boque*. In this island, whilest Fernando solaced himselfe ashore, with one of the company, in part of the Island, others spent the latter part of the day hunting swanees, whereof we caught many. The next day early in the morning we weyed anker, leaving Caycos with good hope that the first land that we see next should be Virginia.

Richard Hakluyt, 1587

The Turks and Caicos rope through eighty miles of ocean. They are outcroppings of eolian limestone, piles of fossil seashell bits, really. There are a few hills, but mostly the islands are near sea level or at it. Mangrove tangles fill the low spots. On first glance, as tropical paradises go, the T and Cs are sort of like the roof of your apartment building. Rainfall is scant, topsoil rare. *Nice beaches*, though, and the *wind and water* carve the soft rock into rococo shorelines and mysterious sea caves and startling sinkholes fit for Aztec maiden sacrifices. The people are hopelessly friendly.

P.J. O'Rourke, 1987.

COMMUNICATIONS

Flying monopoly

THE MAN from Pan Am put it bluntly, as he curled his fingers inward. "We've got you like *that*," the assembled travel trade was told at the islands' first solo British promotion in London last month.

Although an increasing number of charter flights from North America provide weekly replenishment for the resorts of Providenciales, most TCI visitors enter via the Pan Am monopoly scheduled route from Miami. The carrier flies twice a week to Grand Turk, ferrying government officials and an increasing number of business visitors as the offshore financial centre expands, while three weekly flights serve the tourist retreat of Providenciales.

For those who come on business, the difficulty in being able to take a return flight home at short notice is a hindrance. Executive jets and local light-plane charters are both widely used. Those seeking a more leisurely approach can find connecting flights from some nearby Caribbean islands through regional carriers such as Bahamasair and the islands' own Turks and Caicos National Airline (TCNA).

There is are no scheduled passenger shipping services and only an occasional cruise ship has called

There are no scheduled passenger shipping services, and only an occasional cruise ship has called. There is no port deep enough to accommodate large liners, nor do onshore restaurants have the capacity to handle a deluge of day-trippers.

Sea cargo services are operated from Miami, but much of the freight, like all of the passenger traffic, comes by air.

Rival airlines transfer their passengers to Pan Am for the final hop. Virgin Holidays, part of Mr Richard Branson's UK leisure empire, has been selling packages to the TCI for the past two years, flying holidaymakers as far as Miami on its own Virgin Atlantic service.

Will the position change? Local tourism authorities are painfully aware of the problems that would occur if Pan Am's perennial financial plight forced it into retrenchments on its Caribbean routes. Long-time TCI residents have seen a multitude of smaller, mainly Florida-based airlines come and go, and Pan Am has stayed the course longer than most.

However, the government has been talking recently to at least one further US major, understood to be American Airlines, about *introducing* a parallel service perhaps from the north-east seaboard. The possibility is also being aired that TCNA might acquire a jet for a Miami run of its own, but the privately-owned status of the local carrier would make it difficult to find any British aid *for such* a venture.

Longer-haul routes are hampered by the limitations of TCI airport runways, which are not designed to take airliners much larger than the Boeing 727s used by Pan Am. A DC-10 was tried once into Providenciales – it landed and took off safely, but tore parts of the tarmac to shreds on departure. That airport, in particular, the subject of a $10m-plus UK aid contribution in the early 1980s to encourage tourism, is widely seen now to have been poorly sited. With water one end and a hillock the other, any future extention of the runway will be difficult and costly.

Once on the islands there are two lifelines. One is TCNA's fleet of mainly seven-seater planes, which all but the poorest islanders use as a bus service. Maximum fare within the TCI is $52 for the *half-hour* trip between Grand Turk and Provo. The other is Cable and Wireless, the British company, which operates a telephone system which is modern and efficient, although ferociously expensive for international calls.

The high cost, as with most things on the TCI, is explained by small volume. Calls to the UK cost $3.30 a minute at peak rate, rather more than double the charge that applies in the other direction, while businessmen note that, unlike its sister company Mercury in the UK, Cable and Wireless (West Indies) offers no bulk user discounts in the Turks and Caicos. "There is just not much bulk," says Mr Martyn Robinson, TCI marketing manager.

A punitive $5 fee for any reverse-charges call booked through its system is, however, expected to be withdrawn.

The high cost of international calls from the islands is explained by small volume

The group's 20-year franchise has only about two years to run, and negotiations for a renewal are under way, with Cable and Wireless confident that it will be kept on – it has recently been adding new digital exchanges, for example. Asked if a rival with existing regional operations such as AT&T of the US could step in, Mr Robinson says: "It's a big world – anybody could come in and negotiate with the government. But in the real world, we are here, and we have a lot of kit in here."

INDUSTRY AND FISHERIES

Future expectations are all at sea

CASSAVA, cotton, sisal, salt, and seafood – all have had their time in the Turks and Caicos. But the time for all, as a means of support for any large amount of the working populace, has gone. Prospects are slim that any future product will take their place.

Conversations abont industrial or resource-based activity on the islands immediately veer in one of two opposing directions. Whether government minister, appointed official, or an operator within the private sector, there is either a resigned shrug to the inevitability of an externally fuelled economy through tourism and offshore finance, or an excitable exposition of the latest in a long line of feasibility studies which in the and hava produced nothing hnt paper and consumed little except administrative time.

Cassava cultivation died out with the Arawak Indians in the 16th century, and the other two cash crops historically cultivated in the somewhat more arable west of the chain, bore testimony largely to the initial enthusiasm of the Loyalist settlars who arrived from the American South after the revolution.

The salt industry, established around the middle of the 17th century and based on the arid easterly settlements of Grand Turk, Salt Cay and South Caicos, lasted a good 300 years and was clearly what those islands could do best. Unsurprisingly, then, there are perennial hopes that it may be revived – the collapse of the husiness in 1964 came about because competing countries such as the Bahamas had made technological improvemeots which the TCI had not matched.

Just behind the double row of huildings which makes up Cockburn Town, the islands' capital on Grand Turk, lie its inland salinas or salt beds, now ragged, stagnant and unappealing. Last year the rights to a number of these and further salinas on Salt Cay were taken up by Sun Crystals, a US group, raising local hopes. But another season has come and gone without any sign of movement beyond an opening ceremony.

According to the TCI Private Sector Development Office, the expected capital injection if the project gets under way is of the order of $60m, and up to 450 local workers could again be employed in the industry. Mr Derek Taylor, the Minister for Commerca and Development under whose department the private sector office falls, says his understanding is that suitable financing has not yet been arranged.

Mr Taylor sees the main problem besetting the islands not as a lack of resources, skills, initiative, or even project funding, hut transport. He wants to see an inter-island ferry service so that goods can be shipped out from a central point, possibly hy establishing a port on the uninhabited West Caicos, the only island not to be bound by a coral reef.

Marine products remain the only significant export industry of the islands

The minister, a formar senior customs officer, goes further, arguing: "We are strategically located in every respect you can think: north/south and east/west. We could have a trans-shipment point with European goods and goods from Canada coming here during their winter season for stockpile while their ports are frozen." West Caicos, he adds, could also be ideal for oil bunkering and would allow direct shipments of a variety of products from the UK in order to break the Miami stranglehold.

Meanwhile, marine products remain the TCI's only significant export industry, producing more than $4m in annual revenues, mainly from conch meat but with lobster as an important, and preminm priced, secondary catch.

In the face of this, though, comes one of the region's sadder coals-to-Newcastle stories: while South Caicos islanders are packing shellfish to be shipped abroad, hoteliers in Grand Turk balefully admit to serving lobster tails flown frozen from Florida.

Mr Taylor, his point about transport problems therehy illustrated, says the government is at the same time concerned about overfishing and the illegal use of chlorox, a bleach dropped in the water to agitate shellfish and move them towards waiting boats.

The government is considering a closure of the lobster season for two to three years, while encouraging the extraction of scalefish such as red snapper which have been so far neglected. Mr Taylor says that Japanese boats hover just outside TCI waters "and we would love to know what they are catching".

A shift to scalefish would, however, mean venturing into deeper waters with bigger boats than the 16-footers which are now used at the traditional fishing centre of South Caicos and also to a large extent at Providenciales, where the husiness has become more recently established.

The half-dozen seafood packing companies which the islands support are nearly all US-controlled, but the local fishermen own their own craft and simply sell them their produce day hy day. With the average lobster catch down to perhaps a third or a quarter of levels five years ago, managers of the plants say the capital needed to upgrade to larger ocean-going boats is just not available.

Mr Alden Durham, Leader of the Opposition and a representative of South Caicos on the Legislative Council, endorses the need to move into scalefish, which account for little more than a tenth of current fisheries exports. Fishing sustained his island even when the salt business disappeared, but he is concerned about the recent drift of men and boats to Providenciales, which he argues provides no better a livelihood.

"If we have a bad few weeks here, it shows in the local economy," he says. "People can't pay their bills in the shops. We have had an exodus to Provo, but it's not good for us, and not good for the people who go. They have to boil two pots, as the islanders say – they have a wife and children for whom they have to provide, then they have to rent an apartment in Provo. Some have drifted back."

The haemorrhaging of young taleot and initiative has been felt even more keenly when TCI "belongers" have gone ahroad to seek the advancement which has not been available to them locally. This includes not only the academically-gifted – the TCI can offer no tertiary education and most of those who go overseas to seek it do not return – hut also a range of other islanders who are most commonly to be found working in hotels or on construction projects in the Bahamas to the north.

Estimates of their numbers vary widely, with some clarity expected from a Turks and Caicos census due to be undertaken next year, the first since 1980. But it is believed that at least as many islanders are living abroad as those who have stayed.

There is no tertiary education and most of those who go overseas to seek it do not return

Mr Oswald Skippings, tha Chief Minister, puts the figure as high as 40,000, but this would include second and third-geoeratioo families who, while retaining the right to abode in the TCI, have few real ties.

Mr Skippings hopes some will return as the pace of tourist sector development steps up. He is optimistic about two large hotel projects proposed for Grand Turk but acknowledges that the capital would have difficulty in accommodating anything more than itinerant workers.

Nationals from Haiti to the Philippines have been brought into Providenciales to work on developments there while huilding workers particularly from North Caicos, which traditionally supplied a lot of labour for that industry, have headed abroad.

North Caicos may experience a return Influx with the planned commencement of work on Parrot Cay, a small neighbouring Island where Bovis of the UK is due to build a 50-suite luxury hotel and villas in a long-delayed £200m project initiated hy Mr Patrick Ellis. He has long-standing links with the TCI and hopes to employ as many as 200 islanders in the building stage.

An even larger $535m proposal disclosed this month hy Mr Liam Maguire, a California-based British entrepreneur, could if successful provide an enduring activity for the islands including North and South Caicos in the neglected middle of the TCl chain between Grand Turk and Provo.

He has received outline endorsement from Mr Skippings for the elaborate plan, which would be the islands' biggest development scheme. It involves dredging a deep harbour (between south and East Caicos rather than at the distant West Caicos as envisaged by Mr Taylor). From this, a "theme port" would be created to attract cruise ships. Funding for work in progress would be sustained hy the sale abroad of aragonite, an ultra-fine seasand which the port dredging would yield. Aragonite is used in various manufacturing processes such as paint and also has applicatlons in coal-fired power stations for limiting the exhaust gas emissions which cause acid rain.

Financing is, howevar, far from being fully in place, and will depend partly on the international response to a planned bond issue. This would be made a private offering in $250,000 denominations convertihle nltimately into land and offering residence rights – thought to be a way of attracting Hong Kong funds. Resources experts believe the project will also need not to depend too heavily on aragonite, as some sources of supply closer to US mainland consumers have been mothballed in recent years.

Mollusc class of '89 prepares to graduate

Conch farm enterprise

ELABORATELY encased as they slowly patrol the seabed off the eastern coast of Providenciales, some hundreds of thousands of conches this year carry more than the usnal heavy burden of their pearly-pink shells.

The mollusc class of 1989 is intended to form the first full commercial output from Caicos Conch Farm, and mark the graduation into reality of a 15-year dream harboured by Mr Chuck Hesse, an American biologist and engineer who runs it with a staff of 25 on behalf of Trade Wind Industries (TWI), the owner.

TWI, with abont $3.5m in capital, is owned hy 18 North American investors. Mr Hesse describes it as "one of the few non-suitcase shareholder companies in this country", adding that there is no soft aid money in the venture, nor do the investors use it as an offshore financial manoeuvre. He expects it to be in profit in two years.

Turks and Caicos belongers have used conch as a subsistence food for centuries, as has been the case in Cuba, the Bahamas and Belize – stocks elsewhere in the Caribbean have largely been depleted. Because of the Hispanic population it is also eaten in south Florida and has more recently become prized as a delicacy.

When Mr Hesse arrived on tha islands in 1974 it was being sent dried to Haiti as barter for the fresh vegetable produce which the TCI lacked. He steered the fishermen of South Caicos in the direction of the Miami market instead, where they still sell most most of their export catch, now in frozen form. The hnsiness ships between 600 and 700 tonnes a year abroad and is worth more than $2m annually in export revennes.

Various schemes for conch mariculture hava been proposed over the years as a way of strengthening Carlhbean economies, hnt no one has stayed the course as long as Mr Hesse. He says of the countries in the region: "Their ability to be economically successful is dependent on their natural resources" – and the TCI has fewar than most. He describes the conch as "an underwater cow or sheep", which eats only algae and needs no elaborate feedstock.

The main problem is keeping track of them in their early months. Mr Hesse has developed a hatchery whare they are reared until they are abont 3½ three and a half months old and 25mm in length. Although three quarters of the larvae will have been lost by then, survival rates are far higher than in the sea where they succumh to lobster and other predators. They are then put into a 100-hectare fenced ocean "pasture", leased from the government, where they spend the remainder of the year.

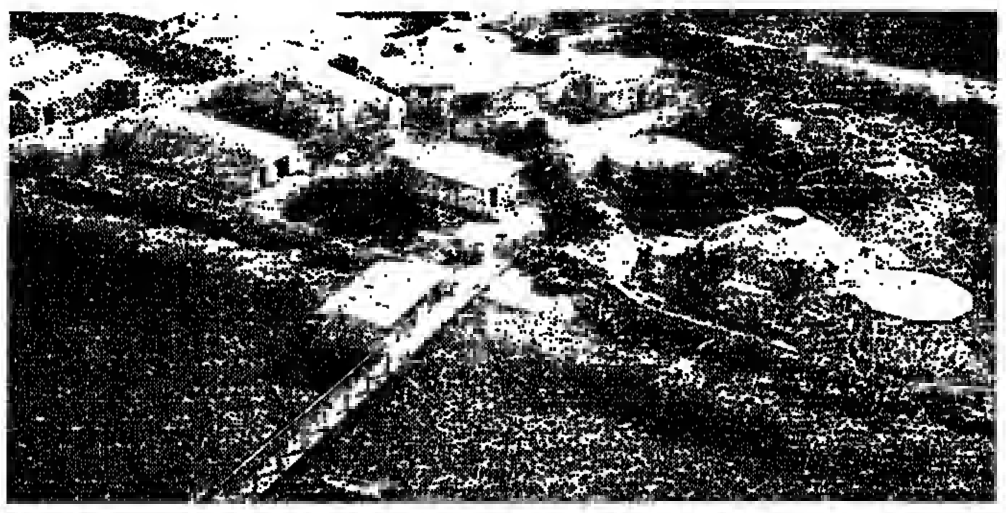
Caicos Conch Farm expects to produce 300,000 animals in the current year, rising to an eventual target of 1m. This would hoost the islands' export capacity by as much as 20 per cent.

But Mr Hesse is not content to stop there. He is looking to Hong Kong jewellery makers as a source of demand for the shell, the most striking thing about the animal, which on South Caicos is discarded from the fishing boat. He has experimented successfully with cultured pearls, as in oysters – they occur once every 10,000 in the wild in colours ranging from brown to a sought-after pink which can fetch hundreds of dollars apiece.

He is developing markets such as aquarium suppliers in the US – because of their feeding hahits, juvenile conches are good for keeping fish tanks clean. Rather than retain his exclusivity, Mr Hesse also wants to sell franchise rights to start farms elsewhere in the Caribbean. For the meat itself he sees China and Japan, where conch is eaten, as important future markets.

He wants to add valne to what is now a straightforward hulk product for the islands, by producing fillet portions which before packing are tenderised to break down tha rubbery consistency which can thwart an inexperienced cook.

But he is resisting offers which he regards as side-tracking the enterprise. One group wanted to huy the whole business so it could snpply the young as "conch escargots" to tha New York restaurant trade. "I got into this business to grow meat," he says.



Caicos Conch Farm: the world's largest commercial conch-rearing operation

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Gilts & Fixed Int	6	108 5	108.5	115 1	8 69	40001
High Inc Equity	6	129 1	132.0xd	140 5	4.52	40002
Worldwide Bond	5	207 6	207.0xd	219 9	4 82	40003
Capital Growth						
American Growth	6	205 5	207 5	220 8	0 86	40004
Asian Pacific	6	118 5	120 8	128 6	1.01	40005
Assets & Earnings	6	151 1	151 1xd	161 7	2 29	40006
Capital Reserve Acc	0	87 85	87 95	87 95	4 55	40007
Capital Reserve Inc	0	77.93	77 99	78 07	5 12	—
Comdty & Energy	6	118 2	120.6	128 3	1.48	40008
1992 Enterprise	6	59 68	59 60	63 83	2 02	46597
Euro Capital Acc	6	97 51	98 23	104.5	0.72	40009
Euro Capital Inc	6	94 02	94 75	100 8	0 74	—
General	5	172.30	172 3	184 3	2.71	40010
International	6	58 51	58 42	63 22	0 79	46032
Japan	6	126 9	129 2xd	137 5	0 00	40011
Harrowgrand	6	93 11	93 11	99 59	1 71	40012
UK Growth Acc	6	175 4	175 4xd	187 0	2.49	40013
UK Growth Dist	6	115 8	115.8xd	123.9	2.26	40014
US Emerging Cos	6	56 26	56 74xd	60.37	0.00	40015
Income & Growth	6	292 00	299.3xd	318 5	5.22	40016
Ethical	6	45 56	47.23	50 25	1.99	40017

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

Buckmaster Mangmt Co Ltd—Contd.

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
International	5	117 7	117 7	124 5	0 95	40212
(Accum Units)	5	161 8	161.8	171 1	0 95	40213
Smaller Co's	5	102 2	102 2	108 1	2.31	40214
(Accum Units)	5	112 3	112 3	118 8	2.31	40215
Inv Portfolio	2½	52 11	53 04	54 68	3 51	46339
(Accum Units)	2½	54 10	55 06	56.76	3.51	46858
High Income Port	3	46 16	46 16	48.61	6 08	46857

Burrage Unit Tst Mangmt Ltd (0905)F
117 Fenchurch St, London EC3M 5AL 01-480 7216

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Sm Cos Gilt & FI	1½	54.88	54 80	55 67	2 83	40216

CCF Foster Braithwaite UT Mngt (1100)F
1 White Hart Yard, London SE1 1NX 01-407 5966

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
F & B Sel Intl Gwth.	5½	51 76	51 76xd	56.64	1.36	46890

CCL Unit Trusts Ltd (1400)F
74 Shepherds Bush Green, W12 8SQ 01-740 7070

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
UK General Tst	5½	52 61	52.61	57 28	2.23	40217
Global Tst	5½	46 97	46 97xd	50 80	2.01	40210
Recovery Tst	5½	45 69	45.69	50 97	1 92	40214

CIBC Unit Tst Managers plc (1200)H
Cottons Ctr, Cottons Lane, Ldn. SE1 2QL 01 234 6000

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Growth Fd Acc	5	108 4	110 0xd	116 0	4.50	40220

CIS Unit Managers Ltd (1000)F
PO Box 105, Manchester M60 0AH 061 837 5060

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
UK Growth	6	91 95	99 54	105 9	2 42	—
UK Income	6	97 50	99 77	106.5	5 43	—

CS Fund Managers Limited (1000)H
125 High Holborn, London WC1V 6PY 01-242 1148

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
CS America	5	66.99	66.99	71 36	1 19	40221
CS International	5	60.27	60 27xd	64 11	1 93	40222
CS Japan	5	155 3	155 3	165 2	0 36	40223
CS Portfolio Inv &	5	69.31	69 31xd	73 73	3 53	40224

Canada Life Unit Tst Mgrs Ltd (1200)F
High St, Potters Bar, Herts. EN6 5BA 0707 51122

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Can Gen Dis	5	142 9	145 5	153 2	3 02	40225
Do Gen Accum	5	241 4	245 8	256 6	3 02	40226

[illegible]

Midland Unit Trusts Ltd—Contd.

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Intl High St U7	6	58.37	58.37	62 43	1 56	[illegible]
(Accum Units)	6	60 16	60 16	64 34	1 56	[illegible]
Japan Growth	6	440 0	440.0	471 1	0 00	[illegible]
(Accum Units)	6	462 5	462 5	495 1	0 00	[illegible]
Mandarin Tst	6	65 35	65 41	69.96	0 90	[illegible]
(Accum Units)	6	65 88	65 95	70 53	0.90	[illegible]
Mngd P'tfolio Acc	6	73.21	73.96	79.08	2.1[illegible]	[illegible]
Money Market UT	4	49.37	49.37xd	51.35	12[illegible]	[illegible]
North American	6	130.3	130 3xd	139 4	0.4[illegible]	[illegible]
(Accum Units)	6	160.9	160.9	172.1	0.4[illegible]	[illegible]
Smaller Cos	6	153 4	153 4	164 1	1.7[illegible]	[illegible]
(Accum Units)	6	170 7	170.7	182.6	1.7[illegible]	[illegible]
Meridian Income	6	107 1	108 4	115 9	3 9[illegible]	[illegible]
(Accum Units)	6	132.0	113 3	121.2	3 9[illegible]	[illegible]
Meridian Growth	6	119.5	120 4	128.8	2.2[illegible]	[illegible]
Midland Personal Pension Unit Trust *						
British	6	59.06	59 79	63 61	3 12	46496
European Growth	6	66 25	66 35	70 59	0 87	46497
Gilt & Fixed	6	51 14	51 22	54 49	8.77	46498
Income	6	54.04	54 98	58.09	4 64	46499
Japan Growth	6	64 46	64.86	69 00	0.00	46500
Managed	6	57.73	58 62	62.36	2 11	46504
Money Market	6	55.21	55.21	58.52	13 00	46501
North American	6	60.93	62.173	66.14	0.42	46503
Midland FSAVCS Unit Trust *						
British	6	54 87	55.55	59.10	3.12	46012
European Growth	6	63 43	63.53	67.58	0.87	46651
Gilt & Fixed Int	6	49.59	49 67	52 84	8 79	46652
Income	6	53 87	54.53	58 33	4.65	46653
Japan Growth	6	65.71	60 12	70.34	0.00	46913
Managed	6	55 85	56 72	60.34	2 12	46654
Money Market	6	52.35	52.35	55.49	13.00	46914
North American	6	60.12	61.31	65.22	0.43	46915

Providence Capital Fd Mgrs Ltd (1000)H
30 Uxbridge Road, London W12 8PG 01-749 9111

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Pref & Fxd Int	5	44 62	44 62xd	47.77	8.40	46848
Special Sits	5	107.0	107 0	114.5	1 64	41149
Technology	5	145 2	145.2	154.9	0.18	41150
European Acc	5	133.10	133.10xd	142.60	0.56	41156
European Inc	5	127 80	127 80xd	136 90	0.56	41155
Japan Acc	5	130 60	130.60xd	140 00	0 00	41160
Japan Inc	5	130.40	130.40xd	139.70	0.00	41159
Nth American Acc	5	70.00	70 00	74.40	1.38	41158
Nth American Inc	5	67.09	67.09	71.32	1.38	41157
UK Equity Acc	5	81.41	81.41	87 51	3.12	41154
UK Equity Inc	5	73.82	73.82	79.35	3 12	41153
Worldwide Acc	5	114.20	114.20	121.90	0.31	41152
Worldwide Inc	5	109.30	109.30	116.80	0.31	41151
UK High Inc Eq Acc	5	78.35	78.35	84 71	6 00	41162
UK High Inc Eq Inc	5	68 94	68.94	74.55	6 06	41161
Hong Kong Acc	5	40 86	40.86	52.12	2.74	41164
Hong Kong Inc	5	46 63	46 63	49.76	2.74	41163
Swiss Equities Acc	5	40.05	40.05xd	42.92	1.07	41166
Swiss Equities Inc	5	39.71	39 71xd	42.56	1.07	41165
W'wide Bond Acc	5	56 69	56 69	59 81	5.68	41168
W'wide Bond Inc	5	53.94	53 94	56.90	5.68	41163
Emerging Asia Acc	5	98.59	98.59	105.60	0.00	46464
Emerging Asia Inc	5	98 59	98.59	105.60	0 00	46465
UK Money Mkt Acc	0	51.16	51.16	51.16	13 93	47494
UK Money Mkt Inc	0	51.16	51.16	51.16	13.93	47493
Thailand Inc	5	50 93	50.93	54.55	0.36	—
Thailand Acc	5	50.93	50.93	54.55	0.56	—

Provident Mutual Unit Tst Mgrs Ltd (0905)H
25-31 Moorgate, London EC2R 6BA 01-588 3963

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
PM Equity Gth	5	115.8	115 8	123.1	3 59	41169
PM Income & Gth	5	94.59	94.59	100 6	4.34	41170
PM Nth Amer Gth	5	61 81	61.81	65.75	1 15	41171
PM European Gth	5	61.42	61 42	65 34	0 68	41172
PM Japan Gth	5	88.50	88.50	94 14	0.26	41173
PM Overseas Gth	5	58.52	58 52	62.25	0 42	41174

Prudential Holborn Unit Tsts Ltd (1445)H
51-69 Ilford Hill, Ilford, Essex IG1 2DL 01-478 3377
Holborn Unit Line 0800 010345
Two Hourly Pricing

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Holborn Trust	6	26 98	26 89	28.61	0 92	46407
Holborn Comp	6	74.70	74 70	79 89	0 31	41175
Holborn Equity Inc	6	62.09	62 09xd	[illegible]	[illegible]	[illegible]

Scottish Provident Inv Mgt Ltd (1000)F

Scottish Widows' Fund Mngmt (0659)H

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♣ - 1401 to 1700 hours; ♠ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Wellington Fund Mngs Ltd (1200)F						
2, London Bridge, SE1 01-407 4404						
Wellington Income	5¼	134.8	136.3xd	145.0	5.13	41593
Wellington Growth	5¼	222.3	224.2xd	238.5	1.31	41594
Wessex Asset Management (1330)F						
1 Richmond Hill, Bournemouth BH2 6HW 0202 299432						
Wessex UK Gwth	4½	105.4	109.0	113.5	2.94	41595
Whittingdale Unit Tst Mgmt Ltd						
2 Honey Lane, London EC2V 8BT 01-606 3132						
Challenger & F	2¼	61.39	61.39xd	62.95	0.90	41596
Short Dtd Gilt ♦F	1¼	81.98	81.98	83.17	7.17	41590
U.S. Govnmt Bond ♦F	1¼	.5787	.5787xd	.5863	0.00	41598
Willbro Financial Services Ltd (0905)F						
PO Box 515 Austin Friars, London EC2 01-588 7511						
Aust Friars W'wide	5	193.1	196.6	209.1	2.52	40877
Windsor Trust Mngs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD 01-405 8331						
Comthl & Equity	5	54.86	58.10xd	61.88	7.61	41599
European	5	77.17	77.54	82.49	0.10	46303
Far Eastern	5	64.44	70.72	75.23	0.62	46304
Growth Inc	5	75.33	78.95	83.98	1.62	41600
Growth Acc	5	75.41	79.02	84.06	1.62	40996
Income Inc	5	73.98	76.34	81.21	5.21	41601
Income Acc.	5	74.08	76.44	81.31	5.17	40997
Property Share	5	47.26	47.26	50.38	0.10	41602
Smaller Co's	5	49.41	49.41	52.53	1.88	41605
Nth American	5	64.53	64.53	69.01	1.57	41209
International	5	49.27	49.273	52.68	1.39	41210
Asset Value	5	158.21	158.21	169.20	4.43	41044
Wright Seligman Fund Mngs Ltd (1700)F						
11 Blomfield St, London EC2M 7AY 01-588 0592						
Int'l Growth	5	112.91	112.91	118.95	1.95	40604
UK Growth	5	92.40	92.40	97.26	3.08	–
UK Income	5	95.84	95.84	100.89	4.46	–
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngs Ltd (1100)F						
Woodsome Pk, Fenay Bridge, Huddersfield 0484 602250						
Yorkshire General	5¼	55.51	56.89	61.50	2.89	41605
YUTM UK Eqty Inc Tst	5¼	35.90	37.65	61.31	0.82	41606
YUTM Intl Gwth Tst	5¼	57.08	57.08xd	60.91	0.71	41195

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd				
Int'l Exmt November 15	1554.2	574.8	0.68	40105
Cent. Bd. of Fin. of Church of England‡‡				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Inv Fund Oct 31		512.35	4.98	40251
Fxd Int Sec Oct 31		136.45	10.48	40252
Deposit Oct 31		100.00	14.22	40253
Charinco/Charishare‡‡ (1000)F				
33 King William Street, EC4R 9AS 01-280 2800				
C'inco Inc Nov 22	161.5	168.8	9.82	40254
C'inco Acc Nov 22	673.9	698.9	9.82	40255
C'share Inc Nov 22	151.3	157.1	3.80	40256
C'share Acc Nov 22	167.4	174.0	3.80	40257
CAFINVEST–Charities Aid Foundation				
48 Pembury Rd, Tonbridge TN9 2JD 0732 771333				
Balanced Growth	51.48	52.94	4.00	–
Income	49.39	50.40	8.00	–

	Bid Price	Offer Price	Yield Gross	City-line
MGM Assurance(z)				
MGM House, Heene Rd, Worthing 0903 204631				
UK Equity Acc.	239.1	251.7	–	42890
Special Situations Acc.	215.7	227.1	–	42891
North American Acc.	187.4	197.3	–	42892
Pacific Basin Acc.	414.7	436.6	–	42893
Fixed Interest Acc.	261.5	275.3	–	42894
Property Acc.	218.0	230.4	–	42895
Deposit Acc	147.9	155.7	–	42896
Managed Acc.	253.8	267.2	–	42897
Intl Equity Acc.	116.0	121.1	–	47074
Bonus Gwth Fd Acc.	117.3	123.3	–	42898
Pension Funds				

FT UNIT TRUST INFORMATION SERVICE

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Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	Yield Gross	City-line
American	123 0	130 8	–	43285
Building Soc. Fd	177 0	187 0	–	43286
Balanced	279.0	294 0	–	43287
European	193 0	204.0	–	43289
GJ Managed	184 0	194 0	–	43290
Gartmore Mngd	128.0	135 0	–	43291
German	155 0	164 0	–	43292
Gilt	173 0	183 0	–	43293
Global	49.0	52 0	–	46934
High Inc	106 0	112 0	–	43294
International Equity	196.0	207.0	–	43295
Japan	287 0	303 0	–	43296
Managed	56 0	59.0	–	43297
Property	298 0	314 0	–	43298
R. W. Imperial Gold	147 8	155 0	–	43299
UK Equity	313.0	330 0	–	43300
Pension Funds				
American	151 0	159 0	–	43301
Building Soc. Fd	181.0	191 0	–	43302
Balanced	219.0	231 0	–	43303
European	193 0	204 0	–	43305
German	136 8	144 0	–	43308
Gilt	153 0	162 0	–	43309
International Equity	142 0	150.0	–	43310
Japan	146 0	154 0	–	43311
Managed	62 0	66 0	–	43312
Property	228 0	240 0	–	43313
UK Equity	301 0	317 0	–	43314

Professional Life Assurance Co Ltd
Frobisher Hse, Nelson Gate, Southampton 0703 232323

	Bid Price	Offer Price	Yield Gross	City-line
Pensions Managed Fund	93.74	99 09	–	42263
Pensions Cash Fund	82 00	86 31	–	42264

Prolific Life & Pensions Ltd
Stramongate, Kendal, Cumbria LA9 4BE 0539 733733
Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Balanced Grth Mngd	601 3	633 7	–	43315
Adventurous Mngd	130 7	137 8	–	46402
Secure Mngd	108 9	114 8	–	46403
Cash Fd	241 9	255 0	–	43316
Property Fund	299 5	315 6	–	43317
Equity Fund	679 1	715 7	–	43318
Fxd Int. Fund	291 3	307 0	–	43319
International	330 7	351 6	–	43320
High Income	435 2	463 0	–	43321
Far East	457 0	486 2	–	43322
North American	297 5	316 5	–	43323
Special Sits	600 0	638 4	–	43324
Technology	264 6	281 5	–	43325
Extra Inc Fd	258.5	275.0	–	43326
Convertible & Gilt Fd	148 2	157 7	–	43327
American Income	137 8	146 7	–	43328
Gilt Fund 20	301 4	320 7	–	43329
European Fund	111 2	118 3	–	43330
Pref & Fixed Int	98 0	103 3	–	46332
Equity Income Dist	95 0	100 0	–	–
Managed Dist	95 0	100 0	–	–
Pension Funds				
Balnc Gth Mgd Pens Acc	579.2	609 7	–	43331
Adventurous Mgd Pens Acc	125 4	132 0	–	[illegible]

Prudential Holborn Pensions Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Index Linked Gilt	203.1	213 8	–	43530
Guaranteed	13 93		–	43531
International Money	212.1	223.3	–	43532
North American	82.1	86.3	–	43533
Japanese	166 5	175.3	–	43534
European	109 0	114 8	–	43535
Special Situations	107 8	113.3	–	43536
Communications	102 6	108 0	–	43537
Smaller Companies	103 7	109 2	–	43538
International Small Cos	143.2	150.8	–	46559

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-548 3281

	Bid Price	Offer Price	Yield Gross	City-line
Discretionary Nov 8	£159.52	164.53	–	43539
Equity Nov 8	£166 95	173 01	–	43540
International Nov 8	£29 07	29 72	–	43541
Intl Bond Nov 8	£13 01	13 18	–	43542
Fixed Int Nov 8	£74 01	74 00	–	43543
Index Linked Nov 8	£63.25	64 05	–	43544
Property Nov 8	£116 58	123 48	–	43545
Cash Nov 8	£22 1650	22 1650	–	43546
Pru-Linked Retirement Plan				
Managed Nov 9	383 4	399 4	–	43547
Cash Nov 9	207 3	216 5	–	43548
Prudential Pensions Investment Account				
Pens Mngd Nov 24	155 6	167 4	–	43549
Pens UK Eq Nov 24	284 6	306.7	–	43550
Pens. Intl Nov 24	202.4	217 9	–	43551
Pens Fixed Nov 24	159 7	179.2	–	43552
Pens Index Lk Nov 24	163 1	172 3	–	43553
Pens Cash Nov 24	135 7	142.9	–	43554

Regency Life Assurance Co Ltd
Regency Hse, Lanark Sq, London E14 9XS 01-538 8800

	Bid Price	Offer Price	Yield Gross	City-line
Aggressive Ptflio Fd	118 9	125 1	–	43555
Balanced Ptflio Fd	310 4	326 7	–	43556
Cautious Ptflio Fd	123 2	129 6	–	43557
Elite Fund	105 4	110 9	–	43558
European Fund	94 1	99 0	–	43559

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (**)

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ISLE OF MAN (**)

LUXEMBOURG (**)

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

LONDON SHARE SERVICE

BRITISH FUNDS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	"Shorts" (Lives up to Five Years)					
500	Treas 2pc IL '90(84.6)	133¾	9.98	19.6	25 Jul 25 Jan	1311
1,400	Exch 11pc 1990‡‡	99¼	14.59	12.7	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	99⅞	14.51	16.8	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	96⅛	12.14	2.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987-90‡‡	97¼xd	13.86	8.11	15 Dec 15 Jun	1340
955	Treas. 8pc Cv 1990 ‡‡	96¾	13.65	9.6	16 Jul 16 Jan	4680
1,887	Treas. 10pc Cv 1990	97	13.55	18.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	92⅞	10.57	16.10	22 May 22 Nov	1270
2,200	Treas 11¾pc 1991	98⅝	13.37	27.6	10 Jul 10 Jan	1292
400	Funding 5¾pc '87-91‡‡	92¾	11.64	1.9	5 Oct 5 Apr	1275
400	Treas. 3pc 1991	90⅝	10.29	9.10	13 Nov 13 May	1326
646	Treas 10pc Cv '91 ‡‡	96⅜	12.65	27.6	12 Jan 12 Jul	1286
1,550	Exch. 11pc 1991	97⅝	12.44	18.9	25 Apr 25 Oct	1258
1,350	Treas. 8pc 1991	92¾xd	12.39	3.11	10 Jun 10 Dec	1335
900	Treas 12¾pc 1992‡‡	101¼	12.03	15.6	22 Jul 22 Jan	1297
1,600	Treas 10pc 1992	96	12.06	17.7	21 Aug 21 Feb	1283
1,400	Treas. 8pc 1992 ‡‡	91⅜	12.04	6.9	13 Oct 13 Apr	1337
1,288	Treas 10¼pc Cv 1992‡‡	97⅜	11.87	2.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	84¼xd	9.97	6.11	13 Dec 13 Jun	1328
1,350	Exch. 12¼pc '92	100¾	11.86	19.7	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	104⅜	11.71	31.8	22 Mar 22 Sep	1266
950	Treas 8¼pc 1993	91⅞	11.58	12.7	18 Aug 18 Feb	—
1,850	Treas 10pc 1993‡‡	96⅜	11.43	8.9	15 Oct 15 Apr	1279
1,100	Treas 12½pc 1993‡‡	102⅝	11.47	27.6	14 Jan 14 Jul	1296
600	Funding 6pc 1993‡‡	86⅝	10.29	9.8	15 Mar 15 Sep	1276
1,250	Treas 13¾pc 1993‡‡	107⅜	11.32	17.10	23 May 23 Nov	1304
1,050	Treas. 8½pc 1994	90⅜	11.33	27.6	3 Aug 3 Feb	—
600	Treas 14½pc 1994‡‡	111⅛	11.16	26.7	1 Sep 1 Mar	1307
1,100	Exch 13½pc 1994	107⅜	11.27	20.9	27 Oct 27 Apr	1267
1,400	Treas. 10pc Ln. 1994‡‡	96¼xd	11.11	2.11	9 Dec 9 Jun	1284
1,550	Exch. 12½pc 1994	104⅜	11.25	17.7	22 Feb 22 Aug	1263
1,600	Treas 9pc 1994‡‡	92¾	11.05	11.10	17 May 17 Nov	1345
	Five to Fifteen Years					
2,350	Treas 12pc 1995	[illegible]	[illegible]	19.6	25 Jul 25 Jan	1294
229	Exch 3pc Gas 90-95	[illegible]	[illegible]	25.9	1 Nov 1 May	1271
2,100	Exch. 10¼pc 1995	96⅝	[illegible]	14.6	21 Jan 21 Jul	1254
1,000	Treas 12¾pc 1995‡‡	107⅝	[illegible]	9.10	15 May 15 Nov	1298
900	Treas. 14pc '96	112⅝	[illegible]	15.6	22 Jul 22 Jan	1305
750	Treas. 9pc 1992-96‡‡	91⅜	[illegible]	9.8	15 Sep 15 Mar	1344
1,350	Treas 15¼pc 1996‡‡	119¼	[illegible]	27.9	3 Nov 3 May	1309
800	Exch 13¼pc 1996‡‡	110⅜	[illegible]	9.10	15 Nov 15 May	1268
1,109	Conversion 10pc 1996	95⅝	[illegible]	9.10	15 May 15 Nov	1240
1,500	Treas 13¼pc 1997‡‡	111⅞	[illegible]	15.6	22 Jul 22 Jan	1302
3,100	Exch 10½pc 1997	98⅞	[illegible]	17.7	21 Aug 21 Feb	1253
3,750	Treas 8¾pc 1997‡‡	90⅝	[illegible]	24.8	1 Mar 1 Sep	1341
1,000	Exch 15pc 1997	120½	[illegible]	20.9	27 Apr 27 Oct	1269
2,850	Exch. 9¾pc 1998	94⅞	[illegible]	12.6	19 Jul 19 Jan	1273
1,000	Treas 6¾pc 1995-98‡‡	80⅞	10.28	25.9	1 Nov 1 May	1331
1,100	Treas. 15½pc '98‡‡	125⅞	10.83	24.8	30 Mar 30 Sep	1308
2,500	Exch. 12pc 1998	106⅝	10.78	16.10	20 May 20 Nov	1259
1,250	Treas 9½pc 1999‡‡	94⅝	10.43	8.6	15 Jul 15 Jan	1347
2,900	Exch. 12¼pc 1999	108⅝	10.76	21.8	26 Sep 26 Mar	1264
1,252	Treas. 10½pc 1999	99¼	10.65	13.10	19 Nov 19 May	1288
1,548	Conversion 10¼pc 1999	97⅝	10.63	16.10	22 May 22 Nov	1242
1,200	Treas. 8½pc Ln 2000‡‡	88⅞	10.35	21.6	28 Jan 28 Jul	1338
1,554	Conversion 9pc 2000‡‡	91½	10.36	28.7	3 Sep 3 Mar	1244
1,817	Treas. 13pc 2000	115⅝	10.75	27.6	14 Jan 14 Jul	1299
1,050	Treas 10pc 2001	97	10.45	20.7	26 Aug 26 Feb	1280
1,250	Treas. 14pc '98-01	116¾	10.96	16.10	22 Nov 22 May	1306
802	Conversion 9¾pc 2001	95⅜	10.40	4.7	10 Feb 10 Aug	1248
1,600	Exch. 12pc '99-02	106⅝	10.83	15.6	22 Jul 22 Jan	1261
716	Conversion 10pc 2002	97⅜	10.34	4.9	13 Oct 11 Apr	1241
1,450	Treas 9¾pc 2002	96	10.31	21.7	27 Feb 27 Aug	1349
1,300	Exch. 9pc 2002	91⅞	10.24	13.10	19 May 19 Nov	1272
1,800	Treas. 13¾pc 2000-03	118⅞	10.79	19.6	25 Jan 25 Jul	1303
1,000	Treas 10pc 2003	98¾	10.17	2.8	8 Mar 8 Sep	1281
1,900	Treas. 11½pc 2001-04	106	10.59	14.8	19 Sep 19 Mar	1290
900	Treas. 10pc 2004	99¾	10.13	12.10	18 Nov 18 May	1282
443	Funding 3½pc '99-04	55¾	9.00	29.6	14 Jan 14 Jul	1274
1,362	Conversion 9½pc 2004	95¼	10.05	18.9	25 Apr 25 Oct	1246
	Over Fifteen Years					
1,881	Conversion 9½pc 2005	95⅜	10.01	11.9	18 Oct 18 Apr	1247

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,050	Exch. 10½pc 2005	103⅜	10.02	14.8	20 Mar 20 Sep	1251
2,200	Treas. 12½pc 2003-05	116⅛	10.21	16.10	21 May 21 Nov	1295
1,800	Treas. 8pc 2002-06‡‡	84¼	9.96	10.11	5 Apr 5 Oct	1334
3,150	Treas. 15¼pc 2003-07	110⅛	10.23	15.6	22 Jul 22 Jan	1293
1,446	Treas 8½pc 2007 ‡‡	89⅞	9.82	9.6	16 Jan 16 Jul	1339
1,250	Treas. 13½pc '04-08	124⅜	10.15	21.8	26 Sep 26 Mar	1301
—	Treas. 9pc 2008 ‡‡	93⅞	9.74	6.9	13 Apr 13 Oct	1343
721	Treas. 9pc 2008 B	95⅝	9.74			—
1,000	Treas 8pc 2009	85⅛	9.68	21.8	25 Mar 25 Sep	1336
369	Conv 9pc Ln 2011 ‡‡	94⅜	9.66	29.6	12 Jan 12 Jul	1245
1,000	Treas. 5½pc 2008-12‡‡	63⅛	9.46	4.8	10 Mar 10 Sep	1330
700	Treas. 7¾pc 2012-15‡‡	82¼	9.61	19.6	26 Jan	1332
1,000	Exch. 12pc '13-'17	121¼xd	9.68	6.11	12 Jun 12 Dec	1260
	Undated					
359	Consols 4pc	40⅜	—	26.6	1 Feb 1 Aug	1239
1,909	War Loan 3½pc‡‡	36⅛xd	—	25.10	1 Jun 1 Dec	1352
140	Conv. 3½pc '61 Aft	62¼	—	25.8	1 Apr 1 Oct	1243
56	Treas. 3pc '66 Aft	32¼	—	1.9	5 Apr 5 Oct	1324
276	Consols 2½pc	25¼	—	1.9	5 Ja Ap Jul O	1238
475	Treas. 2½pc	25½	—	25.8	1 Apr 1 Oct	1315
	Index-Linked (b)					
650	Tr. 2pc '92‡‡(97.8)	111½	4.11	17.8	23 Mar 23 Sep	1312
400	Do. 2'94 (102.9)	104⅞	3.49	10.10	16 Nov 16 May	—
1,000	Do. 2pc '96(67.9)	154⅛	3.42	10.8	16 Mar 16 Sep	1313
900	Do 2½pc '01(78.3)	129	3.72	18.8	24 Mar 24 Sep	1316
800	Do. 2½pc '03(78.8)	125⅝	3.78	16.10	20 Nov 20 May	1317
1,200	Do. 2pc '06(69.5)	128¾	3.77	12.6	19 Jan 19 Jul	1314
950	Do. 2½pc '09(78.8)	120⅛	3.76	16.10	20 Nov 20 May	1318
1,350	Do. 2½pc '11(74.6)	125⅛	3.74	17.7	23 Feb 23 Aug	1319
1,100	Do. 2½pc '13(89.2)	103⅞	3.71	10.7	16 Feb 16 Aug	1320
1,700	Do. 2½pc '16(81.6)	112⅜	3.67	19.6	26 Jan 26 Jul	1321
1,400	Do. 2½pc '20(83.0)	109⅞	3.60	11.9	16 Oct 16 Apr	1322
900	Do. 2½pc '24‡‡(97.7)	92⅛	3.55	12.6	17 Jan 17 Jul	1323

Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1989: 112.3 and for October 1989: 117.5

INT. BANK AND O'SEAS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 13¼ Ln 2010	100⅝	11.05	1.12	4 Jan 4 Jul	—
100	Asian Dev Bk 10⅛pc Ln 2009	96⅜	10.80	28.3	24 Mar 24 Sep	—
100	Australia 13½pc 2010	119⅞xd	11.03	23.12	28 Jan 28 Jul	—
100	Do. 11¾pc Ln 2015	105⅝	10.95	22.3	26 Apr 26 Oct	—
75	Euro Inv Bk 11pc Ln 2002	101	10.84	23.2	23 Mar 23 Sep	—
100	Do. 10⅞pc 2004	96⅝	10.82	24.10	Apr Nov	—
75	Int-Am Dev Bk 12½pc 2003	109⅜	11.03	7.12	8 Jun 8 Jul	—
175	Do. 9¾pc Ln 2015	91½	10.73	13.10	15 May 15 Nov	—
75	Mlysia 10¾pc Ln 2009	92xd	11.66	23.12	31 Jan 31 Jul	—
50	Utd. Mexican States 16½pc 2008	110	14.90	24.1	1 Mar 1 Sep	—

CORPORATION LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
45	Birmingham 15½pc 2012	102½xd	11.30	13.10	15 May 15 Nov	1837
40	GLC 6¾pc 1990-92	86½xd	15.90	17.7	15 Feb 15 Aug	2647
40	Leeds 13½pc 2006	115½	11.36	11.9	1 Apr 1 Oct	3146
5	Liverpool 3½pc Irred	30xd	—	1.9	1 Ja Apr Jn Oc	3169
25	LCC 6¾pc '88-90	94½	12.80	14.7	10 Jan 10 Jul	3198
26	Do. 3pc '20 Aft	28xd	—	1.11	1 Mar Jn S D	3197
7	Manchester 11½pc 2007	100½xd	11.40	29.9	25 Apr 25 Oct	3275

COMMONWEALTH & AFRICAN LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
14	NZ 7¼pc 1988-92	88	12.10	1.12	1 Jan 1 Jul	—
—	S Rhod 2½pc Non-Asstd.	206	—	—	1 Apr 1 Oct	—
4	Do. 4½pc 87-92 Asstd.	84½	9.33	14.7	7 Feb 7 Aug	—

LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	Building Societies					
20	[illegible] 12½pc 4.12.89	99[illegible]	15.34	28.4	28 May 4 Dec	—
20	Do. 12[illegible]pc 2.1.90	99[illegible]	15.27	30.5	2 Jan 28 Jun	—
20	Do. 12[illegible]pc 29.1.90	99[illegible]	15.27	23.6	29 Jan 23 Jly	—
—	Do. 12[illegible]pc 26.2.90	99[illegible]	15.21	21.7	26 Feb 20 Aug	—
—	Do. 12¾pc 19.3.90	99[illegible]	15.14	—	19 Mr 13 Sep	—
20	Do. 13⅛pc 23.4.90	99¼xd	15.10	18.9	23 Apr 17 Oct	—
20	Do. 13pc 14.5.90	99[illegible]	15.16	9.10	14 May 8 Nov	—
—	Do. 13[illegible]pc 4/6/90	99[illegible]	15.11	—	4 Jun 30 Nov	—
—	Do. 14[illegible]pc 2.7.90	99½	15.05	—	2 Jly 26 Dec	—
—	Do. 13⅝pc 23.7.90	99[illegible]	14.97			—
20	Do. 13[illegible]pc 13.8.90	98[illegible]	14.87		7 Feb 13 Aug	—
20	Do. 13½pc Bds 3.9.90	99	14.73		28 Feb 3 Sep	—
60	Do. 3⅞pcIL Ln 2021	107[illegible]	[illegible]47	22.6	[illegible] 31 Jul	3465
50	Do. 4.25pcIL '24	10[illegible]	[illegible].31	—	[illegible] Feb 23 Apr	—
	Public Board and Ind.					
25	Met. Wtr. 3pc 'B'	45xd	10.8	1.8	1 Mar 1 Sep	3361

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Div % Gross	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass	50	3.50	7.00	1.11	1 May 1 Nov	2763
4	Do. 6pc 28 Stb. Ass.	50xd	3	6.00	1.2	1 Feb 1 Aug	2762
—	Do 4pc Mixed Ass.	50xd	2	4.00	3.4	1 Apr 1 Oct	2761
1	Hung. '24 Ass.	80	2.75	3.57	3.5	1 May	2935
40	Hydro Quebec 15pc 2011	126½	15.00	11.41	27.10	31 Mar 30 Nov	—
30	Ireland 14½pc Ln 2016	116¼xd	14.50	12.37	29.12	31 Jan 31 Jul	—
30	Ireland 9¾pc '91-96	98½xd	9.75	11.80	21.8	1 Mar 1 Sep	3002

AMERICANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
9,784.8	Abbott Laboratories‡	43xd	$1.40	2.1	11.7	Fb My Ag Nr	1503
237.0	♦Allegheny & W 1c	456p	30c	4.2	—	—	—
1,834.1	Amax $1	15xd	80c	3.4	7.8	Mr Jn Se De	1581
353.4	Ambase Corp $1	8⅝xd	20c	1.5	24.2	Jan Mar Jn Dc	2915
840.0	Amdahl 5c	806pxd	h10c	0.8	31.1	Nv Mr Jn Ag	—
3,069.8	Amer. Cyanamid $5	33¼	$1.35	2.6	27.2	Mr Je Se De	—
11,224.6	Amer. Express 60c	22[illegible]xd	84c	2.4	3.7	Fb My Ag Nv	1594
30,175.2	American T. & T. $1	27[illegible]	$1.20	2.7	27.5	Fb My Ag Nv	1597
16,275.2	Ameritech $1	38¼	h$2.92	4.8	28.3	Fb My Ag Nv	—
—	♦Asiamerica Equity‡	600p	—	—	—	—	—
3,226.1	BankAmerica $1[illegible]	17[illegible]xd	60c	2.1	17.5	Fe My Au No	1744
2,322.9	Bankers N.Y. $1	29[illegible]xd	$2.12	4.6	31.3	Ap Jly Oc Jan	1745
12,975.8	Bell Atlantic $1	65½	$4.40	4.3	27.6	Fy My An No	—
15,942.0	BellSouth Corp.	33¼	$2.52	4.8	6.7	Fb My Au No	—
762.0	♦Bethlehem Steel $8	10¼xd	40c	2.5	6.2	Mar Jun S D	1821
—	♦Bio-Rad Labs. A	992p	—	—	—	—	—
628.8	Bowater Inc	17¼	$1.12	4.1	6.6	Oc Ja Ap Jy	1884
797.1	Brunswick 75c	0[illegible]xd	44c	3.1	20.7	F My Au N	1989
3,665.8	CPC Intnl. 25c	44¼	$1.80	2.5	25.9	Jan Ap Jly O	2263
136.7	California Engy	751p	—	—	—	—	—
3,948.8	Campbell Soup 15c	30¼xd	92c	1.9	3.7	Oc Ja Ap Jy	—
1,988.1	Chase Manhattan $12½	23⅜xd	$2.36	6.4	27.7	Fb Mr Ag Nv	2109
2,301.8	Chem. Banking Corpn	20⅝	$2.72	8.3	12.6	Ap Jy Oc Ja	—
2,775.6	Chrysler $6¼	12[illegible]xd	$1.20	6.0	14.6	Mar Jne S O	2135
6,161.3	Citicorp $1	19⅝xd	$1.62	5.3	25.4	Mo Au N F	2141
2,708.3	Colgate-Palmolive $1	39¼xd	s$1.48	2.4	20.7	F My Au N	2184
1,402.1	Cont'l Bank Corp $4	13⅝	80c	3.6	31.5	Dc Mr Jn Sp	—
—	♦Corporate Data Scnce	325p	—	—	—	—	—
971.7	Dana Corp. $1	21[illegible]xd	$1.60	4.7	29.8	Mr Jn Se De	2306
234.0	Data General	848p	—	—	—	—	—
4,970.1	Dun & Bradstreet $1	26¼	$2.00	4.7	13.2	Mr Jn Sp Dc	—
1,474.9	Eaton Corpn. 50c	34½	h$2.00	3.7	2.8	F My Au N	2410
519.6	Echlin Inc	6⅛	70c	5.1	30.6	Jan Apr Jul Oct	—
2,877.4	FPL Group 1c	21[illegible]xd	$2.28	6.7	23.11	Mr Jn Se Dec	—
1,652.4	Fluor Corp 62½pc	19¾	16c	0.5	—	J A J O	2609
14,833.8	Ford Motor $1	28¼xd	$3.00	6.7	28.7	Mar Jun S O	2615
35,240.9	Gen Elect. 63c	38½	$1.88	3.1	7.6	Ja Ap Je Oc	2675
—	♦General Host Corp $1	400p	30c	4.7	13.11	—	—
3,593.9	Gillette $1	31	96c	2.0	27.1	Mar Jun S O	2695
136.4	Gt American Bank Bh $1	4[illegible]	20c	3.0	26.10	Fb My Ag Nv	—
757.9	Greyhound $1½	19[illegible]	$1.32	4.3	30.5	Ja Ap Jy De	[illegible]78

Continued on next page

Allied Trust Bank Ltd
97-101 Cannon St, London, EC4N 5A0 — 01-629 6602
OMNA (£2,001+) 14.50 11.35 15.94 —
NICA (£2,001+) 13.90 10.86 15.24 —

Bank of Ireland High Interest Cheque Acc
36 Queen St, EC4R 1BN — 01-625 7000
2,000-9,999 13.738 10.750 14.922 —
£10,000+ 14.058 11.000 15.281 —

Bank of Scotland
38 Threadneedle St, EC2P 2EH. — 01 601 6746
Money Mkt Cheque Acc. 13.40 10.64 14.90 —

Barclays Capital Advantage Account
94 St Paul's Churchyard EC4M 8EH — 01-248 9155
£10,000+ 13.50 10.75 14.92 —

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
719.6	Hasbro Inc 50c	13⅞	16c	0.7	1.8	Ja No Au My	–
2,227.0	Honeywell $1½	50½	32.75	3.4	22.8	Mar Jun S D	2919
2,595.8	Houston Inds	21¼	$2.96	8.6	10.11	Mr Je Se De	–
38,386.6	IBM Corpn $1¼	64⅛	$4.84	4.6	5.5	Mar Jne S D	2986
1.06	Image Storage	50p	–	–	–	–	2961
1,589.5	Ingersoll-Rand $2	30⅛	$1.20	2.5	16.5	Mar Jun S D	2979
1,574.5	Lockheed Crpn. $1	24	$1.80	4.7	15.2	Mar Jne S D	–
222.7	Lone Star Inds $1	13½	$1.90	8.9	30.8	May Se N Mar	3216
806.6	Louisiana Land 15c	26	$1.00	2.4	29.8	Mar Jun S D	3222
738.1	Lowe's 50c	18⅝	48c	1.6	11.7	Jan Ap Jly Oc	–
1,122.4	Manuf. Hanover $1	23⅝	$3.28	8.9	26.6	Jan Ap Jly Oc	3279
1,769.4	Merrill Lynch $1	16¼	$1.00	3.8	31.10	Feb My Au N	3351
542.3	Molex Inc	21⅝	3.2c	–	–	–	3397
4,968.0	Morgan (JP) $2½	27⅝	$1.66	3.8	21.12	Jan Ap Jly O	3418
26,525	Morris (Philip)	26⅞	$1.13	2.7	12.10	–	5161
11,303	NYNEX $1	52½	$4.36	5.3	27.6	F May Au N	4740
2.70	N'wide Legal Serv.	20p	–	–	–	–	5121
391.7	PHH Corp.	23⅛	$1.16	3.1	4.4	Ja Ap Jy Oct	–
–	Pacific Agr	167p	–	–	–	–	–
1,939.4	Pacificorp $3¼	27⅞	$2.76	6.0	18.7	Feb My Ag Nv	–
11,370	Pacific Telesis 10c	28½	$1.88	4.3	12.85	Fe My Au No	–
777.0	Pall Corp 25c	21	43c	1.4	24.1	Fe My Au No	–
2,067.6	Pennzoil 83 1/3c	50⅝	$3.00	3.8	29.9	Mar Jun S D	3630
3,062.9	Quaker Oats $5	30⅞	$1.40	2.5	20.6	Jly Oc Jan Apr	3738
748.5	Rep NY Corpn $5	30	$1.28	2.7	12.9	Jan Apr Jly O	5614
3,892.1	Rockwell Intl $1	13⅛	78c	3.7	9.6	Mr Je Se De	5847
7,012.7	Sears, Roebuck 75c	24⅞	$2.00	5.2	21.11	Jan Apr Jly Oc	5191
10,354.3	Southwestern Bell $1	34½	$2.60	4.5	5.7	Fb My Ag No	–
[illegible]	Sun Co. Inc. $1	24½	$1.80	4.6	7.8	Mr Jn Se De	4135
1,575.8	TRW Inc. 62½c	28⅞	$1.72	3.8	8.8	Ma Je Se De	4318
1,125.9	TW Services $5	11¼	–	–	11.11	–	–
5,466.7	Tenneco $5	37¼	$3.04	5.2	8.8	Mr Jn Se De	4194
8,332.9	Texaco $6.25	34⅞	$3.00	5.5	30.8	Mr Je Se De	4200
2,336.9	Texas Instr. $1	21⅞	72c	2.0	27.6	Ja Ap Jy Oc	5033
7,974.4	Time Inc. $1	83⅝	$1.00	0.8	22.7	Mr Je Se De	4234
499.5	TRINOVA Corp.	14⅝	s68c	2.9	10.8	Mr Je Se De	4309
6,557.1	USX $1	21½	$1.40	4.1	2.5	Mr Je Se De	4380
275.0	Unilab	296p	–	–	–	–	–
4,610.4	Utd. Technologies	33⅝	$1.60	3.0	21.5	Mr Je Sp Dc	4381
–	UtiliTech Inc.	137p	–	–	–	–	–
9,041.7	US West	45¼	$3.76	5.3	14.4	Fb My Ag No	–
9,388.4	Waste Management $1	42⅝	60c	0.9	16.6	Ap Jl Oc Jan	4439
1,310.5	Whirlpool $1	18⅞	$1.10	3.7	28.2	Mr Jn Se Dc	–
2,045.9	Whitman Corp.	10¼	$1.02	3.5	6.6	Ap Jy Oc Ja	2951
2,452.9	Woolworth $3½	37½	$1.88	3.2	26.1	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	ASM Gold Corp	178p	–	–	–	–	–
–	Abbot Energy Corp.	26p	–	–	–	–	–
1,173.6	Amer. Barrick Res.	28⅛	–	–	–	–	–
–	Armeno	34½p	–	–	–	–	–
–	Augmitto Expln.	11½p	–	–	–	–	–
1,858.3	Bk. Montreal	17⅞	$2.12	6.4	2.8	Fb My Ag Nv	–
1,699.6	Bk. Nova Scot.	938p	92c	5.3	30.6	Ja Ap Ju Dc	–
–	BC Gas $1	021p	60c	4.0	30.12	Fe My Au No	–
6,979.5	BCE	23⅝	$2.44	5.5	12.6	Ap Jy Oc Ja	–
1,001.4	Brascan	10¼	88c	3.2	28.10	Ja Ap Jy De	–
42.4	Breakwater Res.	139p	10c	2.9	–	–	–
2,719.3	Can Imp Bank	17⅛	$1.24	3.9	29.6	Fe My Au No	–
4,015.7	Can Pacific	13¼	76c	2.9	28.3	Ja Ap Jy Dc	–
17.3	Do. 4pc Deb £100.	37	4%	10.8	30.5	July Jan	2051
–	Central Capital "A"	548p	–	–	–	–	–

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES — Contd

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND — Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES — Contd

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

Market Cap £m	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E	Dividends Paid	Last xd	City line
9.03	Seacon Hldgs	[illegible]		12.5	2.6	18.9		Oct May	[illegible]	
6.98	Semperanova	[illegible]		–	–	–		–		
4.80	Sleepy Kids 5p	[illegible]		–	–	–		–		
3.22	Stals Hldgs. 5p	[illegible]		–	–	–		–		
1.78	Swanyard Studios 1p	[illegible]		–	–	–		–		
0.31	System Connection 2½p	[illegible]		–	–	–		–		
9.98	Tavern Leis. 20p	[illegible]		–	–	–		–		
9.41	Tomorrows Leisure 20p	[illegible]		–	–	–		–		
2.62	UPL Group 10p	[illegible]		2.75	5.6	22.5		Dec. July		
6.85	Unit Group	[illegible]		5.0	9.2	3.7		Jan Aug		
6.95	Video Magic Leis. 1p	[illegible]		W2.0	3.4	–		Jan July		
4.34	Vista Ents 5p	[illegible]		–	–	–		–		
10.7	Vizcaya Hldgs 5p	[illegible]		–	–	–		–		
59.2	Whitegate Leisure 20p	[illegible]		–	–	–		–		
1.67	Do. Wrrnts	[illegible]		–	–	–		–		
21.2	Wilton Group 1p	[illegible]		–	–	–		–		

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ‖ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- ‡ Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ¶ No par value

B.Fr. Belgian Francs. Fr. French Francs ☆☆ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p γ	87	+1
Craig & Rose £1 γ	830xd	
Finlay Pkg. 5p γ	66	
Holt (Jos) 25p γ	1343	

IRISH

Cap. 8½% Ln. 1991	£96⅞	+⅛
9pc Cap Ln. 1996	£96½	+⅛
Fin. 13% 97/02	£116	
Arnotts	485xd	
Carrol (P.J.) γ	145	
Hall (R. & H.)	193	
Heiton Hldgs γ	98	+2
IRG	230	
United Drug	132	

TRADITIONAL OPTIONS

3-month call rates

Industrials

Stock	p
Allied-Lyons	43
Amstrad	6½
Astec (BSR)	5¼
BAT	67
BOC Grp	44
BTR	37
Barclays	40
Blue Circle	28
Boots	23
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	32
Charter Cons.	42
Comm Union	48
Courtaulds	31
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	60
Grand Met	44
Guardian	19
GKN	33
Hanson	18
Hawker Sidd	55
ICI	90
Jaguar	85
Ladbroke	25
Legal & Gen	31
Lex Service	26
Lloyds Bank	31
Lucas Inds	54
Marks & Spencer	16
Midland Bk	26
Morgan Grenfell	38
Nat West Bk	23
P & O Dfd	51
Polly Peck	38
Racal Elect	20
RHM	39
Rank Org Ord	72
Reed Intnl	34
STC	28
Sears	9
SmKl. Beecham A	48
TI	38
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	23
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property

Brit Land	27
Control Secs	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Brit Petroleum	25
Burmah Oil	65
Charterhall	2½
County Petlm	9
Premier	10½
Shell	37
Tuskar Res	12
Ultramar	28½

Mines

Lonrho	23
RTZ	45

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc [illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

MONEY MARKETS

Japan may follow the Fed's lead

THE BANK of Japan seems uncoocerned by the yen's fall against the D-Mark. It will certainly do no harm to Japanese exports and may be part of the reason why the Nikkei Index hashit record highs in Tokyo.

UK clearing bank base lending rate 15 per cent *from October 5*

This week the Bank of Japan is likely to inject liquidity into the domestic money market to prevent tight conditions leading to higher interest rates.

An increase in rates would help support the yen against the D-Mark, but comments by Mr Satoshi Sumita, the Governor of the Baok of Japan, appear to rule this out. The D-Mark is already poised to attack Y80.00 this week and traders do not rule out a future rise to Y85.00.

Frankfurt interest rates have a substantial advantage over Tokyo aod the threat of importing inflatioo from East Germany is only likely to make the West German Bundesbank increase that differential. But Tokyo seems more interested in the actions of the US Federal Reserve.

The Bank of Japan and the Fed supported the yen wheo the dollar rose above Y144.00 last week, but that was before suspicions were roused that the Fed is again easing its monetary stance. On Wednesday the Fed added liquidity in New York, even though Federal funds were trading below the assumed target of 8½ per ceot. The Fed drained reserves on Friday, bnt possibly only to underpin a oew target rate of 8¼ per cent. If it has eased, the Bank of Japan may follow suit.

£ IN NEW YORK

Nov.24	Close	Previous Close
£ Spot	1.5620-1.5630	1.5645-1.5695
1 month	0.85-0.84pm	0.93-0.92pm
3 months	2.54-2.52pm	2.57-2.55pm
12 months	8.73-8.63pm	8.67-8.57pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Nov.24	Bank of England Index	Morgan Guaranty Changes %
Sterling	86.7	-23.9
U.S Dollar	69.3	-8.8
Canadian Dollar	105.3	+1.8
Austrian Schilling	108.8	+12.3
Belgian Franc	108.2	-4.4
Danish Krone	107.0	+1.7
Deutsche Mark	116.8	+23.6
Swiss Franc	106.6	+15.4
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). *Rates are for Nov 22

STERLING INDEX

[illegible]

OTHER CURRENCIES

[illegible]

CURRENCY RATES

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

NEW YORK

[illegible]

LONDON MONEY RATES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

CHICAGO

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

[illegible]

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.84 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
Copyright, The Financial Times Limited, Goldman, Sachs & Co., and County NatWest Securities Limited. 1987
CONSTITUENT CHANGES: Deletion: TRT (France)(23/11/89). The restricted shares of Aker, Kreditkassen, Kvaerner, Nora Industrier and Orkla Borregaard (all Norway) were replaced by Free shares Nov.24.

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS : 31,202

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BASE LENDING RATES

[illegible]

GRANVILLE

SPONSORED SECURITIES

[illegible]

Granville & Co. Limited, 77 Mansell Street, London E1 8AF, Telephone 01-488 1212, Member of TSA

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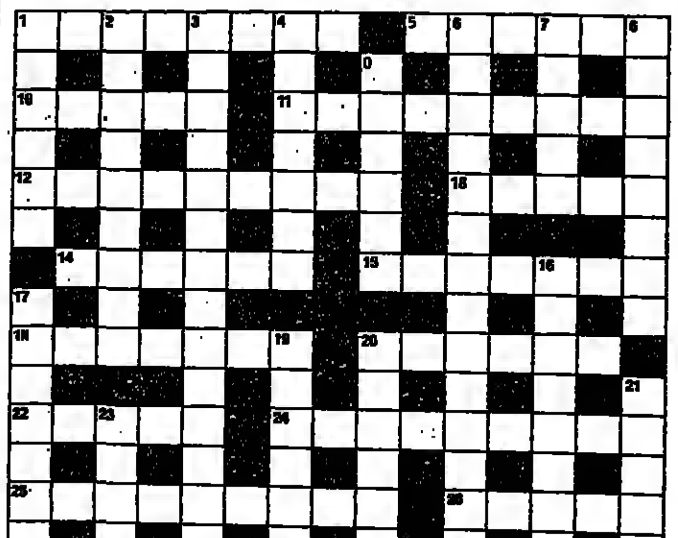
JOTTER PAD

CROSSWORD

No.7,100 Set by TANTALUS



ACROSS

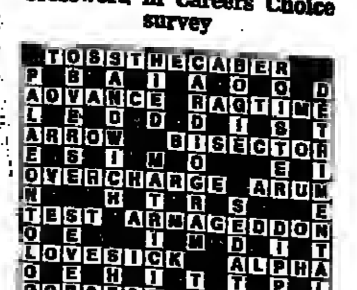
1 Plan agenda (8)
5 Some wag has them astonished! (6)
10 Smell tobacco (5)
11 Queue they say to see these gardens? (9)
12 Summer in France with naval friend lasting for ever? (9)
13 Gunners beat with stick (5)
14 Wife of Brutus organised a trip round ocean (6)
15 About to slip and fall back (7)
18 Hurried into tent designed for competitor (7)
20 Darling carries wood for making valance (6)
22 Aircraftman, one in race, is silent (5)
24 Loath to be about – weird cult approaches worker (9)
25 Determined to see new counties about 1st August (9)...
26 Ruin used by Normans initially to entomb (5)
27 Midshipman's clothing? (6)
28 Girl in difficulty due to parsimony (8)

DOWN

1 Inward member of the family? (6)
2 Brew tea with US hobo seen on river? (9)
3 Leaders of Troy had expectations (8,7)
4 I love a bell-shaped flower (7)
6 It might make you cross (7,8)
7 A Caledonian cravat (5)
8 Boy accepts a fast time is for the gifted (8)
9 One who is 25 (6)
16 Too soon to make tamer in perfect setting (9)
17 He's willing to examine revised rota (8)
19 Turn up to dry swimmer (6)
20 See slip converted into a cloak (7)
21 Overcharges and it hurts! (6)
23 Permission to go for a moulding (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 9.

Solution and winners of Crossword in Careers Choice survey



Catherine Malone, Bristol University; B. O'Connell, NE London Polytechnic; Iain Riddoch, Glasgow University; Graham Sadler, University of Warwick; Sally Starborg, Liverpool University.

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

FRANCE (continued)

[illegible]

GERMANY

[illegible]

GERMANY (continued)

[illegible]

ITALY

[illegible]

ITALY (continued)

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

AUSTRALIA

[illegible]

SINGAPORE

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO
Closing prices November 24

Quotations in cents unless marked $.

Sales	Stock	High	Low	Close	Chng
[illegible]					
2700	Celanese	$27¼	27¼	27¼ +	⅛
27124	Cen Capital	$12⅛	11⅞	12⅛ +	⅛
30262	CenCap A	$10½	10⅛	10⅜ +	⅛
8000	CentFd A	$8¾	8½	8¾ +	⅛
000	C Guar Trc	$10½	10½	10½ +	¼
10500	Charan	80	75	80	
1200	Chieftan	$20⅛	20⅛	20⅛ –	⅛
46200	Cineplex	$10⅝	10⅛	10½ –	⅛
1700	Do Steel 1	$18⅝	18⅛	18⅛ –	½
14725	Cominco	$27⅜	27⅛	27⅜	
200800	Computlog	400	390	390 –	16
[illegible]					
7084	Inter City	$23⅛	23⅛	23⅛ –	⅛
1207	Interhome	$43½	43⅜	43½ –	⅛
5000	Inv Crp	$21⅛	21⅛	21⅛	
000	Ipsco	$18	18	18 +	⅛
2800	Ivaco A 1	$11	10⅞	10⅞ +	⅛
000	Ivaco B	$12	12	12	
60200	Jannock	$18⅛	18⅛	18⅛	
10350	Kerr Add	$10⅝	10⅛	10⅛	
22470	Labatt	$24⅝	24⅜	24⅝ +	⅛
144815	Lac Mnrls	$13⅛	12⅞	13⅛ +	⅛
[illegible]					
1415	Rogers B 1	$58½	58	58½ +	½
67745	Royal Bnk	$49⅛	49⅛	49⅛ +	⅛
32220	Ry Trco	$18⅝	18½	18⅝ +	⅛
12027	SHL Syst	$11⅛	11⅛	11⅛	
300	SNC A 1	$10⅜	10⅜	10⅜	
10410	Seskoit	$14	13⅞	14	
10714	Sceptre	465	460	460 –	5
1141	Scot Paper	$17	17	17 –	⅛
6760	Scotts 1	$18⅜	18	18⅛ –	⅛
14100	Scotts C	$17¼	17	17 –	⅝
[illegible]					

1 – No voting rights or restricted voting rights.

MONTREAL
Closing prices November 24

Sales	Stock	High	Low	Close	Chng
[illegible]					
2170	DomTxtA	$15⅛	15½	15⅝	
2800	Donohon	$11	10½	10½ +	⅛
3165	Memotec	$10⅞	10⅞	10⅞	
83369	NatBk Cda	$13	12⅞	12⅞ –	⅛
7873	Noverco	$11⅛	11⅛	11⅛ –	⅛
30625	Power Corp	$18⅛	18⅞	18⅛ +	⅛
14822	Provigo	$10⅛	10	10⅛	
250	Quebecr A	$15⅛	15⅛	15⅛	
2200	Quebecr B	$14	13⅛	13⅛	
6075	Videotron	$18⅛	18½	18½ –	⅛

Total Sales 5,701,179 shares.

INDICES

NEW YORK

DOW JONES	Nov. 24	Nov. 23	Nov. 22	Nov. 21	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2675.55	(c)	2656.78	2639.29	2791.41 (9/10)	2144.64 (3/1)	2791.41 (9/10/89)	41.22 (2/7/32)
Home Bonds	93.54	(c)	93.57	93.61	94.15 (2/8)	87.35 (23/3)	-----	-----
Transport	1176.05	(c)	1166.43	1158.25	1532.01 (5/9)	959.95 (3/1)	1532.81 (5/9/89)	12.32 (8/7/32)
Utilities	221.58	(c)	221.33	220.01	222.40 (16/11)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2686.01 (- -) Low 2657.00 (- -)

STANDARD AND POOR'S

	Nov. 24	Nov. 23	Nov. 22	Nov. 21	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	343.97	(c)	341.91	339.59	359.80 (9/10)	275.31 (3/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	392.98	(c)	390.58	387.65	410.49 (9/10)	318.66 (3/1)	410.49 (9/10/89)	3.62 (21/6/32)
Financial	32.70	(c)	32.50	32.45	35.24 (9/10)	24.30 (3/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	190.29	(c)	189.21	188.05	199.34 (9/10)	154.98 (3/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	373.14	(c)	371.72	370.98	397.03 (10/10)	305.24 (3/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	456.63	(c)	455.14	454.14	485.73 (9/10)	378.56 (3/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Nov 17	Nov 10	Nov 3	year ago (approx.)
Dow Industrial Div. Yield	3.93	3.94	3.93	3.83
	Nov 15	**Nov 8**	**Nov 1**	**year ago (approx.)**
S & P Industrial div. yield	2.98	3.00	2.97	3.27
S & P Indl. P/E ratio	14.40	14.29	14.25	12.39

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Unisys Corp	3,459,500	16	+ 1½
Texas Util	2,224,900	35	+ ⅛
Texas Instr	1,819,000	37⅞	+ 1⅞
McDonalds (xd)	1,349,300	32⅞	+ ⅛
Philip Morris	965,000	41½	+ ⅛
Homestake	964,700	19⅞	+ 1⅛
Unocal Corp	947,800	27⅞	+ ½
Bristol Myers	923,000	56⅛	+ ⅛
Moest. Util	888,000	22	----
Gen Electric	887,000	60¼	----

TRADING ACTIVITY

† Volume Millions	Nov 24	Nov 23	Nov 22
New York	86,290	(c)	145,730
Amex	6,631	(c)	13,102
NASDAQ	53,676	(c)	139,771
Issues Traded	1,891	-	1,968
Rises	914	-	882
Falls	457	-	541
Unchanged	520	-	545
New Highs	62	-	48
New Lows	21	-	50

CANADA TORONTO

	Nov 24	Nov 23	Nov 22	Nov 21	1989 HIGH	1989 LOW
Metals & Minerals	3342.52	3337.66	3351.96	3362.20	3919.2 (1/9)	3207.5 (3/1)
Composite	3933.48	3915.77	3920.56	3933.61	4037.8 (6/10)	3350.5 (6/1)
MONTREAL Portfolio	2001.45	1993.68	1993.68	1995.37	2069.68 (10/10)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

WORLD

	Nov. 24	Nov. 23	Nov. 22	Nov. 21	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1615.9	1631.9	1637.7	1629.3	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	822.9	834.5	839.1	824.1	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	409.08	407.60	407.48	411.70	515.09 (11/10)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6574.12	6578.57	6581.19	6548.56	6805.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	359.26	358.99	357.22	358.69	359.26 (24/11)	275.49 (27/2)
FINLAND						
Unitas General (1975)	591.4	580.8	591.6	607.5	815.8 (18/4)	580.0 (23/11)
FRANCE						
CAC General (31/12/82)	519.6	517.8	514.1	515.4	561.6 (11/10)	417.9 (4/1)
Ind. Tendance (30/12/88)	119.4	118.4	117.9	117.4	128.1 (10/10)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	655.28	648.36	(c)	641.49	690.91 (10/10)	535.78 (27/2)
Commerzbank (1/12/53)	1932.8	1911.0	(c)	1888.7	2056.8 (10/10)	1595.7 (27/2)
DAX (30/12/87)	1556.51	1534.68	(c)	1514.09	1658.12 (11/9)	1271.70 (13/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2808.53	2800.79	2812.02	2817.19	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1678.81	1677.22	1677.69	1681.78	1848.93 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	670.36	667.88	665.39	664.98	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	36484.47	(c)	36286.92	36059.87	36484.47 (24/11)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2759.60	(c)	2737.20	2717.65	2759.60 (24/11)	2366.91 (6/1)
2nd Section (4/1/68)	3708.07	(c)	3704.56	3692.41	3804.11 (9/10)	2774.38 (27/3)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	253.4	252.8	250.8	248.9	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	194.5	194.1	192.6	191.1	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	615.54	614.30	609.87	615.08	695.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	1369.41	1375.55	(u)	1386.52	1396.26 (20/11)	804.62 (6/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1385.27	1378.05	1361.67	1349.42	1431.85 (12/10)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	2146.0‡	2102.0	2113.0	2057.0	2146.0 (24/11)	1291.0 (15/2)
JSE Industrial (28/9/78)	2578.0‡	2578.0	2572.0	2564.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	907.44	890.65	884.15	884.17	1007.80 (3/4)	846.30 (1/7)
SPAIN						
Madrid SE (30/12/85)	301.13	300.14	299.16	297.98	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	3875.4	3884.5	3870.6	3890.3	4660.3 (15/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	754.0	750.7	744.4	741.0	829.1 (6/9)	613.1 (3/1)
TAIWAN*						
Weighted Price (30/6/66)	9878.61	10094.44	9995.28	10098.60	10773.11 (25/9)	4873.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	751.58	762.21	789.27	792.20	792.20 (21/11)	386.73 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	534.1	533.8	530.4	551.2 (3/9)	487.6 (13/8)

** Saturday Nov.18: Taiwan Weighted Price: 10309.67. Korea Comp Ex. 900.83.
‡ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500. (c) Closed. (u) Unavailable.

TOKYO – Most Active Stocks
Thursday November 24 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Sumitomo Mt M ..	34.8m	2,220	+14	Kawasaki Steel ..	18.8m	828	+8
Sumitomo Mt Mn	33.0m	790	+23	[illegible]	18.2m	[illegible]	[illegible]
Acid Corp	24.1m	787	+12	[illegible]	12.0m	[illegible]	[illegible]
Nippon Steel	24.1m	767	+12	Sumitomo Corp	12.6m	1,600	+60
NKK	21.3m	765	+10	Nippon Oil	12.0m	1,700	+60

4pm prices November 24

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
27½	21¼	AAR	.48	1.4	31	11	34¾	31½	34¾	+ ¼
9⅝	8⅝	ACM n	1.01	11.		27	9½	9⅜	9⅜	
11⅝	10¾	ACMIn	1.26	11.		359	11⅝	11¼	11¼	
10⅛	8	ACM M	n1.01	12.		206	8⅝	8½	8½	
11½	10	ACM Sc	1.28	11.		358	11⅜	11¼	11¼	– ⅛
9⅝	8¼	ACMSp	1.01	11.		249	9¼	9	9¼	+ ⅛
18	11½	AL Lab	.12	.8	16	19	19	15⅞	19	
9⅛	4½	AM Intl			11	442	6⅛	5	6⅛	
23½	10⅞	AM In pf	2	9.9		52	20½	20¼	20¼	– ⅛
107¼	47¼	AMR			6	3435	66¾	64⅞	66½	+1⅞
6½	3⅜	ARX				67	6⅜	3⅛	5⅜	+ ⅛
67½	37¼	ASA	3a	5.3		2265	57⅝	56⅛	57¼	+1
30¼	15¾	AVX	.24	.8	28	203	29⅛	28¾	29	
68½	44⅛	AbtLab	1.40	2.0	19	2582	u69¾	67⅝	69¼	+1⅞
19¼	10¾	AbitiBi g	1			11	13	12⅞	13	+ ⅛
15	7½	AcmeC	.40	4.2	15	14	9⅛	9⅛	9⅛	– ⅛
9¾	5⅞	AcmeE	.32	3.8	11	1	8¼	8¼	9¼	
30½	26¼	Acuson			25	146	67⅛	36⅞	67⅛	+ ⅛
15⅝	12⅞	AdaEx	2.08e	14.		90	15⅜	15¼	15¼	– ⅜
12⅝	8½	Adobe				30	12½	12¼	12⅛	– ⅛
19⅛	18½	Adob pf	1.84	9.9		2	12⅞	18⅝	18⅝	
19½	7¼	AMD				1699	7⅝	7⅜	7⅝	+ ⅛
38	28½	AMD pf	3	10.		13	30	29¾	30	+ ½
19⅞	6⅝	Advest	.19	1.0	19	x145	8⅞	8⅞	8⅞	+ ⅛
62½	40	AetnLf	2.76	4.8	10	3258	61⅛	60¼	21	+ ½
14	11⅛	AflPb	.22	1.6		387	12⅞	15¼	12¾	
25	16⅝	Ahmans	.20	4.5	16	511	20	19⅛	19⅛	
6⅞	2¾	Aileen				39	2½	2⅜	6⅜	– ⅛
48¾	37⅛	AirPrd	1.52	9.6	11	547	44⅝	44⅜	44⅜	+ ⅛
28⅛	19	AirbFrt	.60	1.6	19	315	38¼	37⅞	38	

Continued on Page 41

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
8 5/8	4 1/8	RelGrp	.32	6.6		22	5 1/8	5 1/8	5 1/8	
24 5/8	16 1/8	Repsol n				198	20 1/8	20 1/2	20 5/8	+ 1/2
6 1/4	5 1/8	RepGyp	.20	3.9	24	s10	5 1/8	5 1/8	5 1/8	+ 1/8
51 1/8	51	RepNY	1.28	2.7		93	47 1/8	47	47 1/4	+ 1/8
16 7/8	5 7/8	Rxene	1a	14.	4	248	7 1/8	7 1/8	7 1/8	+ 1/8
33 5/8	20 1/2	ReyRey	.80	3.2	19	15	25	24 7/8	25	+ 1/8
62 1/4	48 5/8	ReyMtl	1.80	3.6	5	901	52	51 1/2	51 1/2	− 1/8
19 1/8	10 1/8	RhnPl n				548	19 1/8	19	19	
41 1/8	29 1/8	RiteAid	.82	2.1	16	103	38 5/8	38 1/8	38 1/8	− 1/8
1/2	1/8	RvrOak				38	5-32	5-32	5-32	− 1-32
12 1/4	8 1/8	Robtsn				6	11 1/2	11 1/8	11 1/2	+ 1/8
38	22 1/8	vjRobins			20	570	36 1/8	35	36 5/8	+ 1/4
21 1/8	19 7/8	RochG	1.50	7.1	12	150	21 1/8	20 7/8	21	− 1/8
45 5/8	23 1/2	RochTl	s1.42	3.6	18	132	39 1/8	38 1/4	38 1/2	+ 1/8
22 1/8	16 1/2	RckCtr	1.86	9.0	19	146	20 7/8	20 5/8	20 7/8	+ 1/8
27 1/8	19 1/8	Rockwl	.76	3.7	7	1582	21 1/8	20 5/8	21 1/8	+ 1/4
8	4 7/8	RodRen				20	6 7/8	6 7/8	6 7/8	− 1/8
37 1/2	30 3/4	RoHaas	1.20	3.8	11	181	31 5/8	31 1/8	31 1/8	− 1/8
37 5/8	19 1/2	Rohr			25	151	20 3/4	20 1/2	20 3/4	+ 1/8
13 1/4	9	RollinE	.08	.7		1324	11	10 7/8	10 7/8	
21	16 1/8	Rollins	.54	3.1	18	25	17 1/8	17 1/4	17 5/8	+ 1/8
46	36 1/8	Rorer	.84	1.9	91	1049	44 1/8	43	43 7/8	+ 1/8
9 1/8	4 1/2	Rowan				734	9 1/8	8 7/8	9	
25	23 1/4	RBSct pf				37	25	24 1/8	25	
70 1/8	55 5/8	RoylD	s3.36e	4.9	7	2080	69 1/8	67 1/2	68	+ 1/8
19	8 1/2	RoyInt	.20e	2.2	11	60	9	8 3/4	9	
19	7 7/8	Royce	.51e	5.4		282	9 1/2	9 3/8	9 1/2	
37 1/8	26 3/4	Rubmd	.52	1.4	25	306	37 5/8	35 1/8	36 1/2	− 1/8
21 1/4	14 1/8	RussBr	.40	2.5	19	30	16 3/8	16 1/8	16 1/8	
16	10 1/8	RussTg	.20	1.7	47	10	11 5/8	11 5/8	11 5/8	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
9 1/4	6 1/4	SunM pf	1.16	13.						
26 7/8	19 1/4	SunTrst	.84	3.5	9					
30 1/2	22 1/8	SupValu	.60	2.4	14					
25 5/8	16 1/8	SybrTc			21					
14	9 5/8	SymsCp			11					
19 1/2	11 1/4	Synovs	.34	2.6	17					
64 1/2	36 1/2	Syntex	1.60	3.4	16					
31 7/8	17 1/2	Sysco s	.20	.7	24					
25 5/8	14 5/8	SystCt			18					
		− T − T − T −								
26	10 1/4	TCBY	.08	.3	26					
17 1/8	8 1/8	TCF Fn	.40	2.9	9					
8 1/2	7 1/8	TCW	.84	10.						
27 1/2	22	TECO	1.62	6.6	12					
15 1/2	10 1/4	TGIF			18					
9 1/8	8 1/2	TIS	1.32e	17.						
21 1/4	14 1/8	TJX	.40a	2.7	99					
23 1/8	18 1/2	TNP	1.55	7.2	9					
46 7/8	41	TRW	1.72a	3.8	11					
161	140	TRW pr4.50		2.7						
39	26 7/8	TW Svc	.05j		38					
1	11-64	TacBt			31					
43 1/4	26 1/2	Talsmn	0.50e		21.					
16 1/4	10 1/8	Talley	.50	4.8	9					
21 1/8	14 1/2	Talley pf	1	3.8						
76 1/2	52 5/8	Tambd	2.08	3.3	19					
26 3/4	14 3/4	Tandem			20					
45 1/4	38 1/4	Tandy	.60	1.4	18					
14 1/4	9 1/4	TchSym			15					
24 1/4	10 1/8	Tektrnx	.60	3.5	25					
2 1/8	1 1/8	Telcom			38					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
60	53 5/8	Xerox	3	5.2	15	1779	58	57	57 1/8	+ 5/8
47 5/8	43 3/4	Xerox pf				4	47	42	42	+ 1/4
44 3/4	25 1/8	XTRA	.72	2.9	7	140	24 1/8	24 1/8	24 1/2	+ 1/8
33	21 1/8	XTRA pf	1.94	4.6		10	23	22	20	+ 1/4
4 1/8	2	Zapata				589	2 5/8	2 1/8	2 1/8	+ 1/8
27 1/2	11 1/8	ZenithE				461	12 1/2	15 1/4	15 3/4	+ 1/8
2 1/2	7-32	vjZenLb				824	5-16	1/4	9-32	
21 1/2	15 3/4	Zenitl	.84	4.5	8	15	16 1/4	16 1/2	16 1/2	
18	6 7/8	Zenix	1.20	16		100	7 1/8	7 1/4	7 5/8	
12 1/4	16 1/2	Zero s	.40	2.7	14	6	12	14 7/8	14 7/8	
44 3/4	26 1/2	Zurnia	.78	2.0	16	273	39 1/8	30 1/8	38 1/4	− 1/8
12 1/8	16	Zweig	1.12e	8.3		360	12 1/8	12	16	
6 7/8	6 1/4	ZweigTl	.96	9.8		453	9 1/4	9 1/8	9 1/8	+ 1/8

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 18 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices November 24

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
ProMed	.42	16	6	4 6 1/8	6 1/8	5 1/4	+ 1/8
ProICre		14	148	6 5/8	6	6 1/8	+ 1/8
		− R − R −					
RBW		11	1	6 1/8	6 1/8	6 1/8	− 1/8
ReCap		16	7	14	13 1/4	14	+ 1/8
Riedel		25	6	13 5/8	13 1/8	13 1/8	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NASDAQ NATIONAL MARKET

4pm prices November 24

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

The Business Column

Managing matrices in all but name

One of the main speakers at a Brunel University seminar on matrix management last week was a senior executive from Harwell, one of the more commercially minded parts of the UK Atomic Energy Authority. His subject was the effectiveness of a widely admired matrix structure which Harwell has operated for 20 years, under which staff raport in two directions at once: to a technical boss and to a business unit.

The timing of his presentation was, to say the least, paradoxical. For, as he revealed apologetically halfway through his remarks, Harwell's matrix is about to be abandoned. As part of a root-and-branch restructuring of the AEA into nine very market-orientated "businesses," Harwell itself is being dismembered. With it – theoretically – the whole matrix concept will disappear.

So how does the AEA intend to manage the many cross-business linkages – technological and otherwise – which must continue to exist if there is to be any logic in the AEA's continued existence, other than political convenience?

Further enquiry at its headquarters elicits the admission that top management is currently wrestling with precisely this problem, and that it will probably end up with a number of matrix-like mechanisms – albeit rather different from the Harwell model, and not necessarily called a matrix.

Wariness

Given the complexity and bureaucracy which has bedevilled many matrix structures, in multinational companies at least as much as in the state sector, such wariness about the whole concept is understandable. In the appliances division of Electrolux, where a divisional/country matrix has had to be be developed to cope with the Swedish company's rapid multinational expansion, some managers treat the word almost like leprosy.

The same shyness is applied increasingly to matrices of the type where functional disciplines such as technology, rather than just divisions and countries, form one of the dimensions. When BP Exploration (known internally as BPX) announced a dramatic delayering and restructuring programme in the early autumn, it studiously avoided using the word "matrix" to describe any part of its newly streamlined organisation.

Many of its technologists are indeed being transferred from the centre to BPX's various operating companies, in order to turn the latter into more complete business entities. Yet the BPX "technology centre" will retain what the company calls "functional parentage" of all technical staff.

What this means is not that BPX's matrix has been abandoned, but that the power balance within it has been shifted sharply away from central functions, and towards the operating companies.

Demolition

This sort of balance-shifting is disruptive at the best of times. But it is infinitely preferable, in many circumstances, to the outright demolition of an organisation strnctnre which has served a company reasonably well, and which could continue to do so if only the people within it could learn to operate differently.

Changing the way existing structures are managed may be a lot less glamorous than a root-and-branch upheaval, but it can often be far more effective. Not, perhaps, in the case of impossibly complex and rigid matrices, like the one which Philips abandoned a few years ago. Nor in many medium-sized companies, which actually need to add an extra dimension of co-ordination as they expand and "go global."

Bnt many established large multinationals would do well to abandon their relentless search for "ideal" formal strnctnres, and concentrate instead on creating a cohesive internal culture which allows the organisation to operate flexibly according to the particular requirements of time and place.

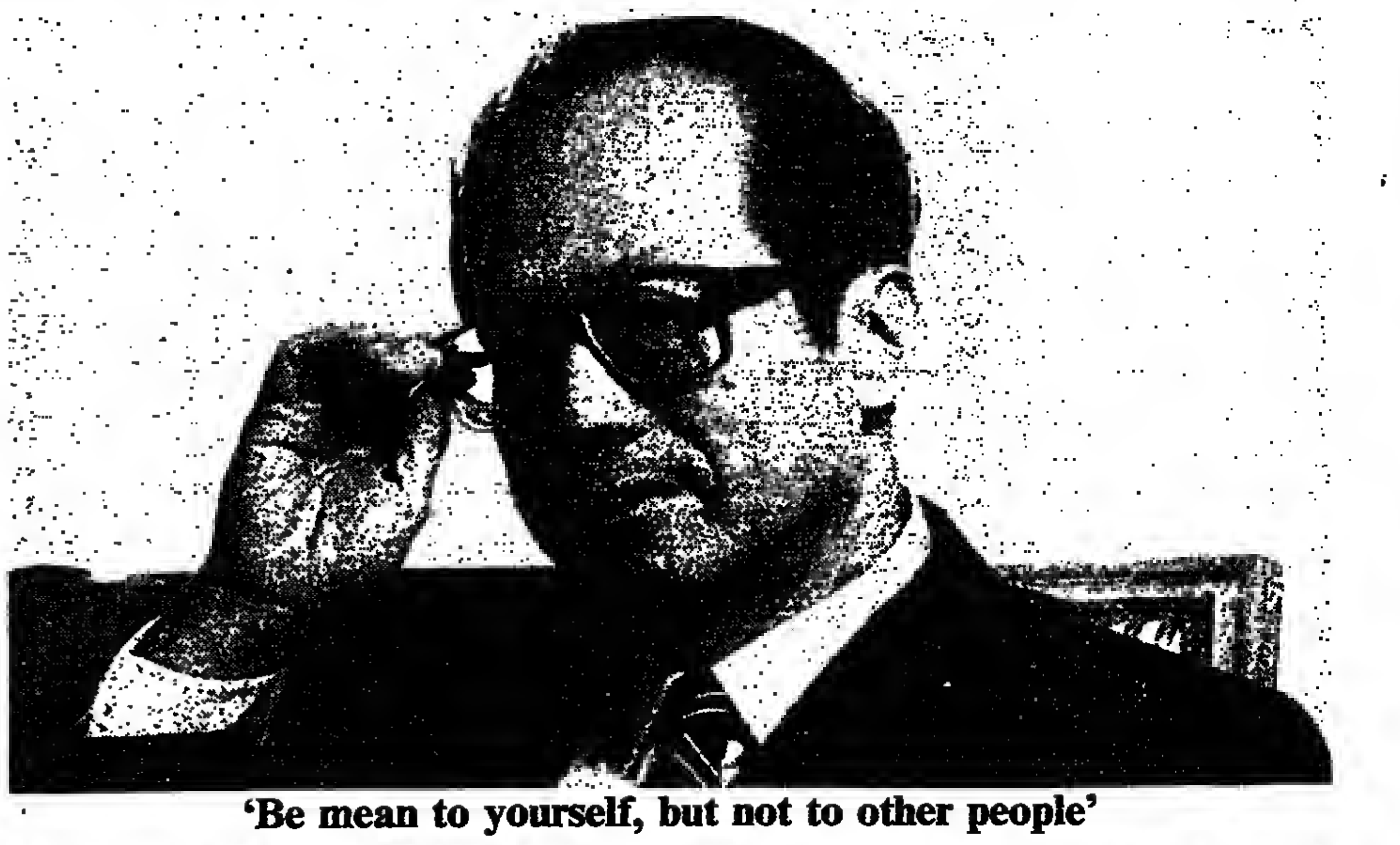
In the words of Christopher Bartlett and Snmantra Ghoshal, authors of Managing Across Borders, an illuminating new book on multinational management, the important thing is to "create a matrix in managers' minds."

Christopher Lorenz

THE MONDAY INTERVIEW

Dilemma of a Hong Kong superman

Li Ka-shing, chairman of Cheung Kong Holdings, talks to **John Elliott**



'Be mean to yourself, but not to other people'

The man who represents Hong Kong's best known rags-to-riches story faces a dilemma. Some 30 years after starting a business empire now worth well over $3bn (£1.9bn), Mr Li Ka-shing has divided interests and loyalties. These arise from the impact of Hong Kong's return to Chinese sovereignty in 1997 on his property-to-telecommnnicatlons group, headed by Cheung Kong and Hutchison Whampoa.

"If you are running a public company, it's not all your own personal money and yon always need to consider what is best for the shareholders," says the 61-year-old, known to associates as K.S. Li. Shareholders and execntive directors have urged him to follow other local companies and move his empire's domicile out of Hong Kong. "As of this moment I am not saying 'yes' to such a move. I don't like to see these sorts of things happening."

Mr Li knows that if he emphasises his empire's Hong Kong base, which accounts for 85-90 per cent of his public companies' assets, he will risk losing international investors who want a strong corporate strategy geared to 1997. So that percentage is coming down.

But any dramatic switch of domicile or investments would ssverely damage local and international business confidence because the companies, with capitalisation totalling HK$72bn (£5.9bn), account for some 14 per cent of the local stock market. If Mr Li goes too heavily international, he will be accused of deserting the place which adopted him as a penniless immigrant from China in 1940. He would also suffer financially because, as one banker says: "Li is a bellwether and if he is seen to be abandoning Hong Kong he will bring down the whole pack of cards here – and his own wealth – with him."

That poses a delicate balancing act for the colony's most astute speculator who is admired for knowing instinctively how to play the property and stock markets, when to invest and, perhaps more important, when to give up and pull out fast. "In husiness you must be solid, quiet, have a budget, and anything over tbe budget you should give up right away," ha explains. "Since 1950 there has not been a year when I have lost a penoy on any business."

Mr Li is estimated to be worth some $2hn when personal investments in property, hotels, banking and other sectors, started 20 years ago in

PERSONAL FILE

- **1928:** Born in Chiu Chow, southern China
- **1940:** Emigrated to Hong Kong
- **1950:** Founded Chaung Kong, making plastic flowara and toys
- **1972:** Took Cheung Kong public
- **1979:** Took ovar Hutchiaon Whampoa

Canada, the US and elsewhere, are added to his 35 per cent puhlic stake in Cheung Kong.

A rather shy man, he runs his empire from a discreetly elegant 22nd-floor suite in a nondescript modern block callad the China Building, located anonymously on one of ths city's huslest street corners. That is in line with his life-style, which wins him respect. "I enjoy a very simple life. My living standards are no different compared with 1960. I still live in the same house and I don't like black tie dinners," he says – tbough he acknowledges with obvious feeling that "people are jealous."

The jealousy stems from his grip on key sectors of the local economy including over 50 per cent of the container port, as well as an electricity utility, plus one of the largest local land banks and hig property developments. His biggest coup came in 1979 when, as a self-made Chinese entrepreneur, be ousted the British from the prized Hutchison Whampoa trading company. That coup was sponsored by the Hongkong and Shanghai Bank where he is now a deputy chairman.

Mr Li has no doubt what has made him successful so far and earned him his reputation for being a fair man to deal with. "The formula is so simple, but the work is hard," he says. "You do not spend much money on yourself, but yon spend it on your friends. Be mean to yourself, but not to other people and build up a good reputation. Always keep your promise and automatically people will like to do business with you. If you are always fair with peopla – more than fair – business will come to you. More comes to me than I can handle."

Clearly there were big ambitions from the beginning, although Mr Li denies a colourful story that be started making plastic watch straps on a small rented balcony and slept at night under his machine. Ha insists his bumble beginnings have been recounted too often, hut then relaxes and talks enthusiastically aboot how he started making plastic flowers (he became one of the world's biggest producers) after he arrived in Hong Kong from Chiu Chow in the nearby Chinese province of Guangdong.

"At 14 I started working in the plastics industry and took care of my whole family. When I was 17 I was seoding mooey back to my mother – more than she needed. Then I became a salesman, then general manager. In 1950, at 23, I started my own husiness."

But does a 14-year-old or a 22-year-old ever dream of $2bn success? "I always had confidence when I started a small factory that sooner or later it would become much bigger. I built all this up step by step. When you are young you must work very hard. Others work eight hours, so you work 16.

"Then you steadily get higher and higher, and because yon keep your reputation people trust you and you get on well with people. Study at night and learn new things, learn a little hit more than your competitor and adopt new technology – I did that in the plastics industry. But the money will not come to you if yon just relax and sleep: and of course you need some luck."

His advisers sometimes wish he would sleep more. He has a repntation for working all hours, through tha night if necessary, when he is on a deal. That goes with his reputation for respooding to offers within a day and of quickly getting out of projects that go wrong.

"I like friendly deals and I like people to come to me with business. That is my philosophy and I have told my two boys – never take advantage of anyone." He says his minority shareholders and tenants benefit from that. I don't like to damage a company. So many takeovers are unfriendly, creating damage in a good company and I don't like to see that. I buy a few per cent as a base to see if it is a good opportunity, then increase if it is. But if it is not good, I get ont."

The most famous targets which faced this approacb include Pearson (which owns the FT) in 1986, Hong Kong Land (part of the Keswick family's Jardine empire) last year, and Cable and Wireless of the UK in which Mr Li owns a 4.9 per cent longer term stake because of his group's interest in telecommunications.

"I'll go anywhere in ths world if there is a good rate of return, the country is stable, and there is proper legal protection."

He has tended to invest in assets, like property, which can be quickly traded. But he also has HK$10bn tied up long-term in three terminals at Hong Kong's container port (out of a HK$30bn-plus four-to-five year investmsnt programme in the colony), and will bid for a fourth terminal next year.

He usually avoids labour-intensive companies. "Normally in western countries, if you get into manufacturing with a lot of employees, you will have to deal with unions and I don't like to have to face up to tronhla with unions."

His straightforward approach to business has however been upset by the June events in mainland China. People who know him say he was shattered by the Peking hardliners' crackdown, bnt ha refuses to say so openly. "Basically I am Chinese and China is my own country and I love my country. I am hoping that people will learn lessons and I hope they will never repeat things again. I was sad to see those television pictures on June 4."

Although he will not admit it, no one in Hong Kong has any donht that these events added urgency to the group's decision to pull out of a local cable television bid that "went over budget" and, longer term, to rednce the proportion of its assets in the colony from the present 85 per cent-90 per cent to 70 per cent, or maybe even to 50 per cent. Mr Li resists discussing tha figures and only says thay "depend on tha returns we find outside."

His takeover trail in Hong Kong however has almost certainly ended. "Our investment will continne in Hong Kong but not takeovers of companies. The chances of that are not high. Our percentage in Hong Kong is already too high."

Hs insists, with qualifications, tbat the "potential of Hong Kong is still there." He is only "reasonably" optimistic on the economy and he specifies "the coming 5-10 years" as the period when the colony will remain the group's "main money making place." About post-1997 he says: "You cannot forecast because you do not know whether yon will have good returns or not because investment in south-east Asia is also very good today."

Mr Li is not willing to agree that Hong Kong is uniqne. Asked if he would rather start again there or somewhere else, he says: "Many other countries have good opportunities. It is not only Hong Kong – you can see in Taiwan, Singapore, Malaysia and Indonesia a lot of Chinese also making very good money because it is the basic thing of Chinese to work very hard."

Of future plans Mr Li says: "I hope before 1997 I can be retired, that is very possible." He has two sons – Victor and Richard – both in their 20s and hoth witb Canadian nationality. That is where a lot of Mr Li's personal wealth is invested – including a controversial $1.7bn housing, offices and services development on Vancouver's 204-acre Expo 1986 site approved last week.

He says he is not yet sure about his succession and seems to suggest professional managers might take over for a time. "The professional management teams are very happy and the sons still need time to learn. I don't know yet. But if you havs a good team of management working together for so many years and you trust each other, it doesn't mean it has to be your sons."

Private law and the public's right to know

JUSTINIAN

Mr Justice Hoffman began his jndgment last Wednesday in *Re Goodwin* in a typically bland, judicial manner: "This is a motion for an order requiring a journalist to disclose the source of his information. The courts rarely make such orders because there is a well-established public interest in the confidentiality of journalists' sources." One might think that that was a prelude to the upholding of the journalist's duty to protect the confidential information he had received.

The case proved, however, to be one of those "rare" instances, because the judge held that the disclosure of the information was necessary "in the interests of justice." *Re Goodwin* strikes at the heart of press freedom and is thus destined to draw hattle lines between Section 10 of the Contempt of Court Act, 1981 and Article 10 of the European Convention on Human Rights. Does tbe legal remedy for enforcing a private commercial interest have a higher social value than the protection of sources by journalists?

First, the facts. A privately owned company was engaging in a re-structuring of its financial affairs. It needed to raise additional working capital and was negotiating for a substantial hank loan. It employed well known accountants to prepare a corporate finance plan. Eigbt "strictly confidential" copies of a draft plan were distributed. Tbe accountants' copy went missing and the next day Mr Goodwin, a trainee journalist on The Engineer, received information from an unidentified source. The circumstances pointed to the source having had access to tbe plan. Mr Goodwin retrieved some information about the company from newspaper cuttings and then checked his information with an employee of the company. That information clearly indicated some knowledge gleaned from tba missing plan. Alarmed hy the prospect of publication of its plan in embryo, before the new financing was in place, which might cause severe damage to confidence in the company among its customers and suppliers, tha company hurried off to the High Court. Tha publishers were stopped for the time being from publishing. Bnt the company feared other publicity might result from the source continuing his "whistle hlowing" activities.

The public interest in nondisclosure of sources of information is subject to four heads of interest, of which "the interests of justice" is one. The law is that the court may not order disclosure unless it is satisfied that disclosure is necessary – not merely justified or expedient. These interests are said hy the English courts, which was echoed by Mr Justice Hoffman, to be "superior" interests, or to "take priority" over the public interest in non disclosure. It is this judicial interpretation of Section 10 of the 1981 Act that is open to debate.

Mr Jnstice Hoffman concluded that on the evidence there was a strong case for saying that the company had suffered a serious wrong. Furtbermore the company would suffer serious commercial damage from the publication of the information in the file during tbe immediate future. Tbe judge accepted that the journalist's source mlght have received the information secood hand.

The main thrust of the journalist's defence was that the company could not reasonably expect to have the assistence of a journalist to investigate and deal with a leak in its security arrangements. This was not a case of national security. The judge rejected this argument. Legal proceedings must at least be contemplated for the interests of justice to arise, however. The availability of a legal remedy carries with it the citizen's right of unimpeded access to the courts. The expression "justice" is used in the technical sense of tbe administration of justice in the course of legal proceedings in a court of law. The company was entitled as part of its legal action to get disclosure of the source of the information.

There is an essential flaw in the reasoning that leads to the conclusion that disclosure was necessary in the interests of justice. The reasoning tests the balance of interests – confidentiality in commercial activity and the journalist's duty to protect the sources of his information – in private law terms: citizen v citizen. However, the freedom of expression in Article 10 of the European Convention on Human Rights is constitotionally guaranteed and inures to the benefit of the public and not in the journalist in his own right. It is thus a public law right.

When the application was beard on Friday for Mr Goodwin's committal to prison for contempt in refusing to hand over the notes which could identify his source, the judge rejected the idea that the case involved a conflict between the company's private commercial interests and the public interest in the freedom of the press.

"The conflict is between two puhlic interests – the free availability of information and the fair administration of justice," he said. Not so. The first is the public's right; the secood is only the public method hy which an individual's private rights can be enforced.

SECTION III

FINANCIAL TIMES SURVEY

South Korean Finance & Industry

Strikes, rising wages, a higher won and US trade pressure have brought a touch of cold reality to the land of the economic miracle. **Stefan Wagstyl** reports on South Korea's move towards a more democratic, more outward-looking and more market-oriented economy

Turmoil of transition

SOUTH Korea is struggling to come to terms with its own success.

After three years of unprecedented expansion, a sharp slowdown in exports has plunged Koreans into a deep bout of anxiety. Businessmen, who usually like to compare their country to Japan, instead talk darkly about Argentina, as an example of a once-rich country which squandered its resources.

The main concern is that over the past three years, rising wages and the appreciation of the won, have undermined Korea's export competitiveness. Strikes hava sullied Korea's reputation as a land of industrial harmony.

But the truth is that the outlook is not as bad as some Koreans believe. The causes of the gloom are the deeply unsettling changes which Korea is undergoing as it moves from authoritarian to democratic government, from a state-led economic system to one in which market forces are to be given greater play. Foreign relations are at a sensitive stage as the country tries gingerly to establish contacts with North Korea.

Also, Korea's trading partners, especially the US, are insisting that the country can no longer enjoy access to export markets without dismantling the barriers which have shielded Korean industry for nearly 30 years of high-speed growth.

However, as well as bringing difficulties, these changes are creating opportunities for business: in investment at home and abroad, in access to international capital markets, in a home market of 43m increasingly rich people.

The International Monetary Fund in a recent report said: "The present difficulties should not be allowed to overshadow the impressive expansion, unequalled elsewhere in the world, that has been achieved by Korea's dynamic economy since 1985. As a result of its accomplishments the Korean economy is in a strong position to face the challenges that lie ahead."

The Korean conglomerates, or *chaebol*, led by Samsung with sales last year of $31bn, Hyundai ($26bn), Lucky-Goldstar ($23bn) and Daewoo ($15bn) should be best placed to take advantage, given their dominance. They are beginning to specialise more in key industries where they think they have an international competitive edge – notably Samsung in electronics.

The government also wants to encourage small and medium-sized companies to be more outward-looking. For foreign businesses too the upheavals could bring opportunities. Koreans are putting a special emphasis on building contacts with Europe – to try to balance their relatively strong ties with the US and Japan. Korean bankers and businessmen are passing through Europe at the same time as President Roh Tae Woo, who is visiting Europe this week.

Traditional preferences for things Korean will not disappear overnight, any more than similar tendencies have died in Japan. Even though its grip will weaken, the government will continue to guide the economy, through its influence on *chaebol*.

A commitment to economic liberalisation among some newly-appointed government officials, such as Mr Han Seung Soo, the trade and industry minister, and Mr Cho Soon, the deputy prime minister, will not compensate entirely for the instinctive bias of old hands towards the interests of the *chaebol*: "Korea will remain a tough place for foreigners to do business," says a western trade official.

Also, exports are bound to remain a vital source of growth, even if a declining one in importance. Exports totalling $61bn last year accounted for a full 36 per cent of Korean gross national product – and they have to keep expanding if only to cover Korea's growing desire for imports.

However, Korea has reached the point at which it has to expose companies to international competition, partly because of US pressure and partly because of self-interest – it wants access to cheap labour, technology and markets. Korea will, moreover, have to move faster than Japan because the West is much more aware of the might of Asian competition than when Japan embarked on its internationalisation soma 20 years ago.

"Our national industries have to become international," says Mr K S Lea, executive vice-president of Sunkyong, a chemicals-based conglomerate, "That will be a fundamental trend from now on."

Rising labour costs provide the main impetus for overseas investment, followed closely by trade frictions. Businessmen believe that Korea may never again be a low-wage economy, following the 100 per cent increase in costs in US dollar terms since 1986. So labour-intensive industries are moving production overseas, particularly to low-wage Asian countries.

As for *developed countries*, Koreans intend to follow the same route as the Japanese – making themselves at homa in export markets: "We must become an insider in target markets," says Mr Lee Chong Suk, an executive director of Lucky-Goldstar.

From an accumulated total of $476m at the end of 1985, overseas investment reached $1.1bn by the end of last year. Samsung, with the most developed foreign investment programme, currently has 5 per cent of its electronics production abroad. In three years' time it plans for between 25 per cent and 30 per cent.

Groups, which had scarcely heard of corporate finance five years ago, are considering mergers and acquisitions. Sammi Steel, a specialist steel maker, recently bought three units of Rio Algom, the Canadian resources group, for $210m, in the first significant Korean overseas corporate acquisition. Given rising labour costs, salvation at home for Korea lies in continuing investment in capital-intensive industries.

There is no shortage of schemes, only of capital and technology. There are no less than five competing plans for $1bn-plus petrochemical complexes.

Korean companies are seeking foreign partners more keenly than in the past for these immense projects. The Government has eased regulations governing inward investment. Foreign investment in Korea is expected to increase from the current accumulated total of $6.8bn, albeit more modestly than outward investment.

Inward investment has long been regarded as a double-edged sword. Koreans have always desired technology but they have feared becoming too dependent on foreign knowledge. For their part, foreigners have been afraid of divulging secrets to a poteotial competitor: "Toshiba knows that our ultimate goal is to beat them," says Mr Snh Jung Sun, a senior executive of the Daewoo group, which includes cars, electronics and financial services.

However, both sides have started looking slightly more favourably on partnerships. Foreign companies which once regarded Korea as an export base are now interested in its fast-growing domestic market. Koreans are more aware than ever of their technological weaknesses.

Each advance by a Korean company tends to expose gaps elsewhere: "We have grown so fast we could not accumulate technology," says Mr Lee Kye Sik, a senior official of the Economic Planning Board. *Between 20 per cent and 30 per* cent of the value of a Korean-made video recorder is imported from Jspan. The same is the case for a Korean car.

The main criterion for liberalising inward investment is usefulness to Korea. This is particularly clear in financial markets. Korea is proud of its plan to open its stock market to foreigners in 1992. But since Korea has no particular need of foreign shareholders, the amounts of stock foreigners can buy even after 1992 will be tightly restricted.

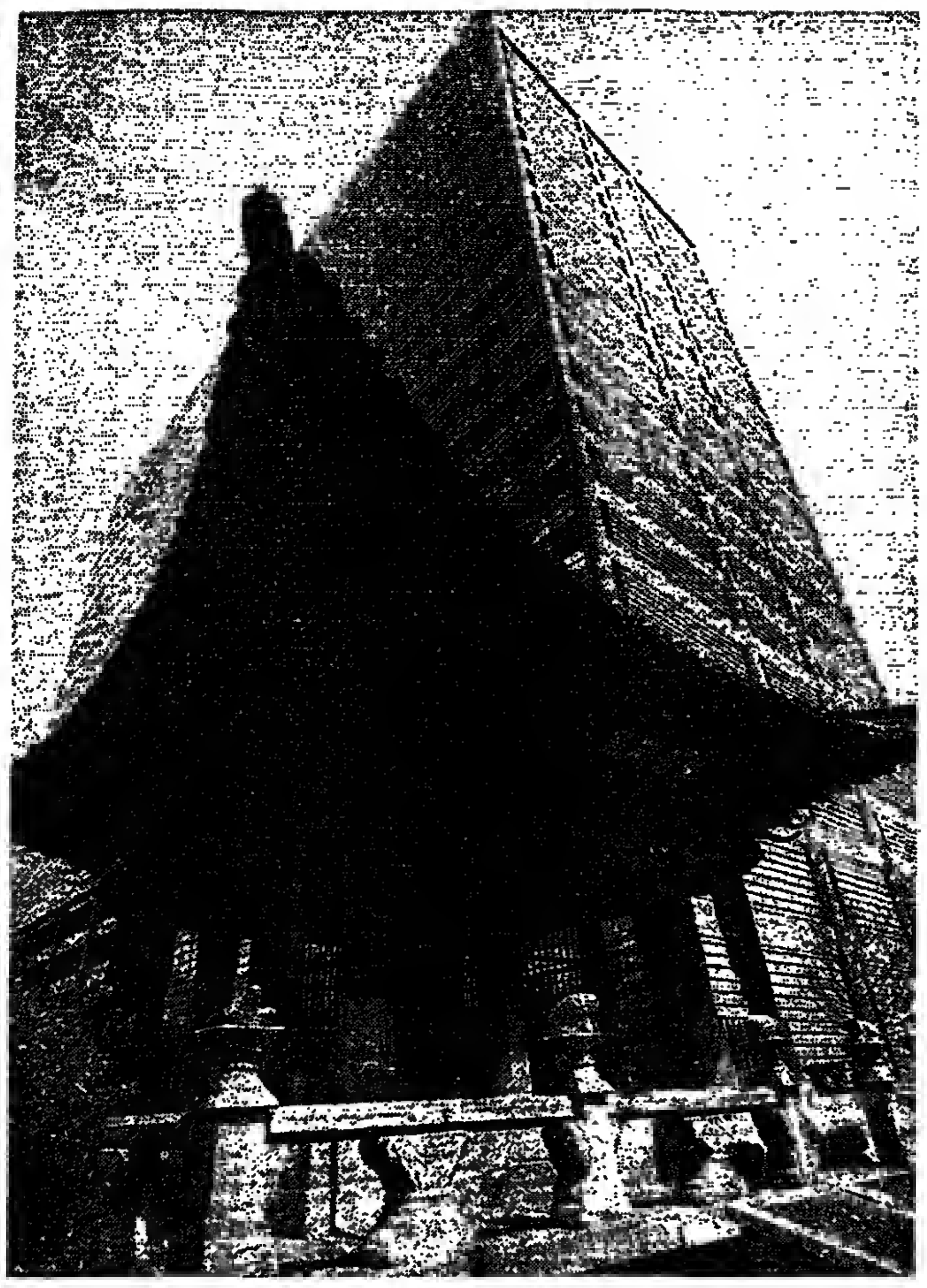
The Korean financial system, especially banking, remains under the control of the Ministry of Finance and the central bank. So the liveliest developments involving Korean companies are taking place in international financial markets, especially innovative issues of Europaper.

Nowhere does Korea boast of its commitment to internationalisation more than in trade – not surprisingly, given US criticism. Korea this year narrowly escaped being named on Washington's list of nations accused of unfair trading, under the terms of the "Super 301" clause of US trade law.

US officials concede that Korea is opening markets, albeit cautiously. The Korean list of banned items, as defined under the General Agreement on Tariffs and Trade (Gatt), has fallen from 40 per cent to about 1 per cent. The government has cot the average level of duty on imports from 19 per cent last year to 12 per cent. It intends to reduce this to 7.6 per cent, the average for developed countries, by 1993.

Nevertheless, the end of formal barriers often reveals hidden ones. Since the tobacco market was opened last year, the importers' share of the Korean market has reached 4 per cent. Starting from the same point in Taiwan they have captured betweeo 16 per cent and 17 per cent of the market. The importers blame various restrictive practices by the Korean state tobacco company – including bullying shopkeepers to tear down advertisements.

There is a danger that change is coming so fast that it might overwhelm Korea. Its move to democracy is so recent, its economy is in many ways so immature. But the difficulties of the present are dwarfed by those which Korea has already overcome. Like Japan and unlike Argentina, the *beting is* that Korea will complete the long journey to economic modernity.



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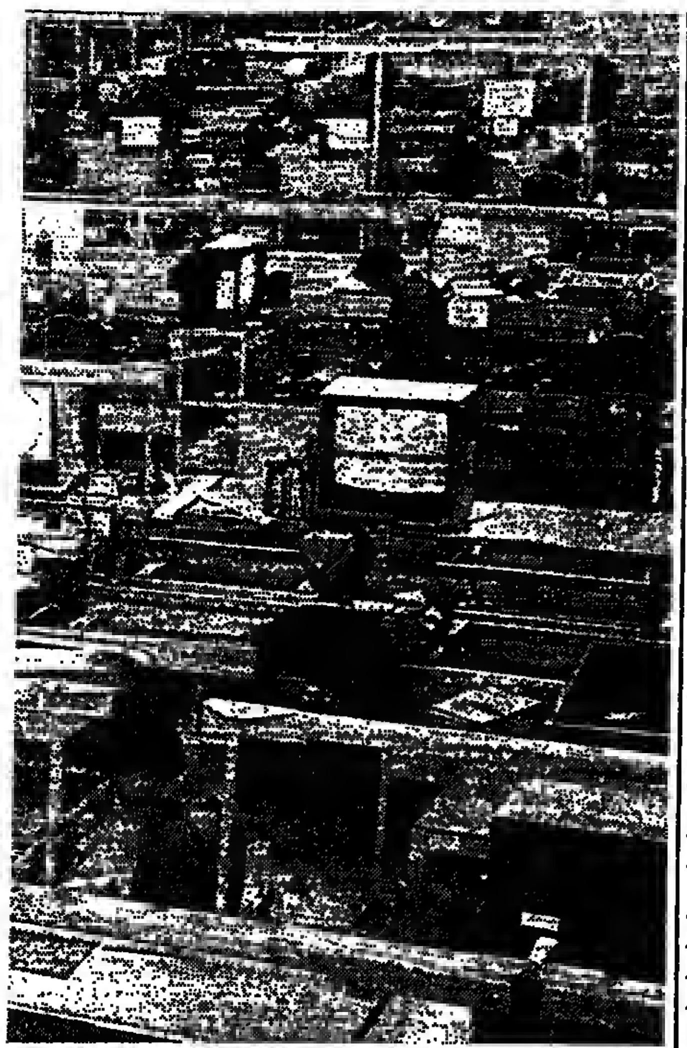
Covar picture: One of Seoul's best known shrines, the Kojong mamorial, contrasts starkly with one of the city's most dazzling skyscrapers

Editorial production: Khozem Merchant



Many South Korean companies are looking to move production of labour intensive products abroad to lower wage countries

Maggie Ford on an economy forced to confront the problems of maturity

Increasingly fraught growing up pains

IT HAS undoubtedly been difficult for the dynamic South Koreans to adjust to the reality of having a more grown-up, mature economy. All year long there have been outbursts of panic and prophecies of doom predicting the end of the country's economic miracle.

After three years of growth at 12 per cent and last year's current account surplus of $14bn, the prospects this year of 6.5 per cent growth and a current account surplus of $6bn have seemed like failure.

But Seoul is not so much headed for failure as undergoing an economic restructuring. The results of the change will determine its future success in the global market and its status as a leading industrialised country in the next decade.

The restructuring affects both the macro and the micro sectors of the economy. On the macro side, South Korea has been forced to react to strong trade pressures, especially from the US.

Companies are moving from the strongly export-led engine of growth that has propelled the economy to concentration on a balance between the domestic and international markets.

They are simultaneously trying to move their export dependence away from US markets to a balance between North America, Asia and Europe, and to reduce their import dependence for components on Japan.

Companies also want to upgrade their technology, move production of labour intensive products abroad to lower wage countries, and sort out a working relationship between management and labour.

In addition, they are facing competition from imports in the domestic market for the first time, as the government lowers tariffs and lifts bans on restricted items.

On the micro side, the Government is planning to introduce a full scale modern tax system, so as to curb speculative activities in property and the stock market. It is expanding welfare and housing spending, and is trying to correct regional wealth imbalances which have arisen during the rapid development of the past. The first ever budget featuring public spending in the history of the country was introduced this year.

It is lifting controls on industry under which government planners "picked winners" and allocated resources to help them in the drive to industrialise.

The result of this widespread restructuring has so far been patchy. Some companies have been quick to grab opportunities offered at home, neglecting their exports in the more competitive environment caused by the 25 per cent appreciation of the currency over the past three years.

Others have invested strongly in speculative assets rather than manufacturing facilities, pushing down the rate of growth but creating inflationary pressure. Speculative activity is expected to ease when a government reform bill takes effect after this year.

Many companies are still working out strategies of internationalisation as South Korea looks to become an advanced economy.

Expected to act in a more independent fashion rather than rely on government guidance, as in the past, they may still not be certain of their future plans.

Most government economists believe that this year's slowdown in growth was necessary to control inflationary pressures. The inflow of funds from the current account combined with wage rises averaging 20 per cent a year over the past three years could have caused a wage price spiral if it had been not checked, they believe.

The central bank has therefore exercised strict control on the money supply this year, resulting in a sluggish stock market. It has also kept interest rates high and strictly rationed lending, especially for speculative purposes.

After strong pressure from industrialists late this year, the Government has lifted some controls in an effort to encourage companies to expand their export effort. Exports grew 4 per cent in 1989 compared with import growth of 19 per cent, mainly in capital goods.

The inflationary pressure is expected to result in a rise in the consumer price index of between 6 per cent and 7 per cent by the year end, a rate which the Government hopes to reduce next year.

A current account surplus of $6bn is now forecast, with a similar out-turn expected next year. The won has depreciated slightly against the US dollar from its high of 670, but no significant further fall is expected, and US officials are reported to be happy with South Korea's progress on trade issues.

The main priorities for the Government next year will be the introduction of a workable system of labour relations to avoid the damaging disputes of the past three years, along with the continued restructuring and modernisation of the fiscal system. The rebalancing of the economy between exports and domestic demand and the introduction of a more competitive approach by companies, both internally and externally, will also be emphasised.

Officials believe South Korea will soon start to experience the advantages of a more democratic and accountable economic system, side by side with political change. Much of the pent-up anger and volatility which has plagued business activity, especially industrial relations, will then begin to moderate, they hope.

Expectations are also likely to become more realistic. The day may not be far off when South Koreans realise that the achievement of 6.5 per cent growth would be regarded by almost any advanced country as an excellent performance.

Comparative economic indicators 1988

	Korea	Taiwan	Japan	US
GNP current prices ($bn)	169.2	119.7	2,859.7	4,863.1
Per capita GNP at current prices ($'000)	4.0	6.0	23.3	19.5
Average annual growth rate of Real GNP 1979-88 (%)	7.0	8.1	4.0	2.5
Average annual rate of change of GNP deflator 1979-88 (%)	9.9	5.3	1.9	5.6
Average annual rate of change of consumer price index 1979-88 (%)	9.3	5.0	2.6	6.1
Annual average rate of change of money supply (M2) 1979-88 (%)	20.0	21.3	8.8	8.1
Unemployment rate (%)	2.5	1.7	2.5	6.2
Current balance as (%) of GNP	8.4	8.5	2.8	-2.8
Share on investment in GNP (%)	30.2	23.3	30.7	17.7
Domestic savings rate (%)	37.7	38.3	33.7	13.8
Population (m)	42.0	19.9	122.3	243.8
Average annual growth of pop: 1979-88 (%)	1.3	1.6	0.7	1.0

South Korea Economic Planning Board

South Korea: economic growth indicators (%)

	1986	1987	1988	1989	1990#	1991#
GNP	12.9	12.8	12.2	6.5*	-	-
Manufacturing	18.4	18.3	13.0	3.1*	-	-
Services	11.5	12.1	11.2	6.9*	-	-
Private consumption	7.5	8.4	9.8	10.2*	-	-
Fixed capital formation	10.9	17.4	11.8	11.2*	-	-
Machinery/eqpt	21.1	21.3	10.1	7.6*	-	-
Construction	3.4	14.0	13.3	14.5*	-	-
Real GNP	-	12.8	12.2	5.6	7.0	7.5
Export volume	-	23.7	13.0	-4.3	4.5	6.0
Import volume	-	20.9	14.3	9.6	7.9	7.4

*Jan-June; #forecast

Source: South Korea Economic Planning Board

TVs for export: Some Korean companies are now trying to broaden their export markets in favour of Europe and Asia. Below, industrial giant Hyundai which has had to secure state aid to end a damaging two-month strike at its shipyard at Ulsan

Stefan Wagstyl on the need for reform of the financial system

Seoul's old habits die hard

KOREAN finance has an impressively modern facade. Gleaming skyscrapers in Seoul. Bankers and brokers with offices in London and New York. Eurobond issues. Even a $210m international acquisition.

But behind this screen, there is a ramshackle mixture of old and new elements, unevenly fitted together in ways which leave great unfilled gaps in the needs of many Koreans. In some parts of the countryside, there are no banks, small and medium-sized businesses often find it impossible to borrow, and money markets are so undeveloped that the cost of borrowing is anything from 11 per cent to more than 50 per cent.

The core of the system are banks, which were established in order to channel funds to industry at the state's behest, and which are still tightly controlled by the authorities. Around them have grown other kinds of financial company – *including short-term finance companies*, securities companies, and life assurers – which are mostly expanding rapidly. The banks' share of the financial community's assets has fallen from about 75 per cent 10 years ago to about 50 per cent.

The Government is publicly committed to reducing bureaucratic constraints and allow free market forces greater play and to respond to US pressure to allow foreign companies more access to Korean markets. But as in Japan, the instinct of the officials at the Ministry of Finance and the central bank is to keep control for as long as possible. So the form of change is often greater than its substance.

Some high-level officials who argue that the government-led financial system which has served Korea well during the past 30 years of high-speed growth is too inflexible to cope with the needs of a sophisticated economy.

But ranged against the reformists are the conservatives at the heart of the financial system – at the ministry, the central bank and at commercial banks, some of which are privatised and others not.

These people often believe that, whatever the *theoretical advantages of liberalisation*, in practice bureaucratically-controlled banking works quite well. A western trade official says: "The financial system is more in need of reform than anything else in Korea. But it's hard to tell the officials they're wrong. They've done a better job of managing their economy than Mr Bush or Mrs Thatcher."

An example of the *limitations of Korean* financial reform has been played out over the past year in interest rate deregulation. Bank lending rates were liberalised last December – meaning that banks were allowed to set lending rates as they chose, instead of all lending at the same central bank-set rate.

However, in practice the leading banks set the same rates. They do not need to compete because under Korean regulations commercial companies have to nominate a prime bank, to which they pledge assets, and which then has the right of first refusal over the client's banking business. In return, the banks are expected to tolerate high levels of debts borne by Korean companies (typically 60 per cent of total assets) and support customers through difficult times. "The cartel of the Korean banking system is very effective," says a foreign banker in Seoul.

Nevertheless, even if the pace of change is slower than in appears, the direction of change is firmly towards increasing competition.

In the past year, the Government has approved six new life insurance companies, all foreign-affiliated, to compete with the 16 existing ones. It has backed increases from seven to 18 in leasing companies and from three to eight in investment trusts. Three new banks have been approved taking the total to 20, with three more planned for next year.

Mr Kim Kun, the governor of the Bank of Korea, the central bank, says the purpose is to promote competition and bring financial services to provincial centres,

The Government is publicly committed to reforming the system in order to reduce bureaucratic constraints and allow free market forces greater play

since many of the new institutions will be based outside Seoul.

The central bank has also supervised an important reform of the money market, by unifying two separate illiquid and inefficient call markets, and allowing various financial companies, including foreign banks, to use it. The deregulation of interest rates on deposits is on the agenda, possibly starting next year.

For the future, President Roh Tae Woo has endorsed a liberalisation plan which set a date of 1992 for the reform which is highest on the wish-list of foreign companies – the opening of the securities market to overseas investors by 1992. There will be tight limits set on the proportion of shares foreigners can buy.

The convertibility of the won, indispensable for freedom of capital, is to move ahead in stages. This year, banks were allowed to set their own rates for telegraphic transfers (within a narrow range), next year the market average rate system as used in Taiwan is to be adopted for setting exchange rates, and at an unspecified date after 1992 the won will be made fully convertible.

None of this is happening fast enough for the securities companies, which have seen the Korean stock market exceed Hong Kong in total capitalisation in the past year. About 125 companies have been listed this year, taking the total to 680. Listings are expected to continue at the same rate as the conglomerates are being pressed by the government to spin off their subsidiaries to spread ownership.

The securities companies have followed banks in establishing overseas offices – principally to manage and underwrite issues of Korean companies on the Euromarkets. They complain that the Government has not allowed the market to grow freely. About a dozen issues by Korean companies were expected this year after five in 1988. However, there has only been one so far, with two more planned by the end of the year. The government blocked other issues out of concern about the growth of the domestic money supply (the proceeds of overseas issues often find their way back into Korea, in spite of foreign exchange controls).

Nevertheless, the Government discreetly encourages Korean financial companies to get involved overseas in complex transactions. Like the Japanese authorities, the Koreans want to see their companies learn techniques *abroad before allowing* them to be used at home.

With the help of foreign securities companies, Korean houses are handling increasingly sophisticated deals, for example, the single Euromarket issue launched so far this year was a $50m bond with warrants for Sammi Steel, a specialist steel maker, co-managed by Merrill Lynch, the US broker, and Dongsuh. Sammi is using the money for a $210m acquisition of three subsidiaries of Rio Algom, the Canadian mining and metals group, in the first significant international acquisition by a Korean group.

Banks too are expanding corporate finance operations. The Korea Development Bank, the state-owned long-term credit bank, is developing an international investment banking operation. It has $21.5bn in assets. Mr Chung Yung Euy, the governor, says he wants to model the bank on the Industrial Bank of Japan, Japan's premier long-term credit bank.

Such comparisons are bold, considering that the privatisation of the KDB is not even on the agenda. However, the authorities are aware that true competition can only flourish if Korean institutions are ready to stand on their own two feet.

The leading commercial banks, which were mostly privatised in the early 1980s, are being encouraged to raise capital to meet capital adequacy standards set by the Bank for International Settlements. According to the central bank, seven out of Korea's 17 banks failed to meet BIS *standards. Most of the seven have* high exposure to bad loans they were prompted to make to heavy industry by the government during the 1970s. The central bank is pressing banks to write these loans off over time against earnings. It believes Korean banks can meet BIS standards by the date they come fully into effect in 1992.

Korean companies will be exposed to the full blast of competition only when they can stand it. And even then, as independent companies, they will be expected to listen closely to the authorities. Just as in Japan.

IMPORT LIBERALISATION

The growth of consumer power

EXPORTERS to South Korea, rushing to take advantage of market opening measures and tariff reductions, could lately be forgiven for wondering exactly what kind of country they are dealing with.

In the past few months a perfectly respectable grapefruit market, which had grown from nothing to several million dollars worth of imports in a few months, was virtually destroyed overnight.

A fast growing imported film business launched by an American company was subjected to a harrage of intimidation, including the release of snakes in cinemas to deter movie-goers and cinema owners.

A scandal over the use of imported ingredients which might be harmful to health in locally manufactured noodles created an overnight boycott of one of the country's staple foods.

And a campaign was launched against sxcessivs consumption in the South Korean press which seemed to focus largely on the kinds of high priced, high margin goods that exporters have found highly profitable to sell in Asia, especially Japan.

Just what was going on, many importers wondered, thinking darkly that they were prohahly the victims of another stab in the back from local vested interests.

Many foreign businessmen in South Korea believe that local companies, whether government-backed or indspeudent, are determined to prevent competition in a domestic market which has been heavily protected for decades.

However, the reality of the situation may be more complex. For while there are undoubtedly some political and unethical business aspects to recent events, foreign companies' business judgment may be better served hy watching *social change and the volatility* of public opinion.

A wave of political and social discontent has recently broken throughout Sonth Korea aa the country's dynamic material success collides with traditional values.

Public protest has concentrated on the conspicuous consumption of luxury goods by the rich, and concern has grown about the spread of corruption. The underlying reason for ths complaints is the uneven distrihutiou of the nation's new wealth.

A recent poll showed that a majority of the public felt that the distribution of income in South Korea was unfair, and that it was wrong for a small minority to indulge in excessive consumption of expensive luxuries denied to the majority.

Taste of things to come: South Korean housewives protesting against the import of farm products, including US grapefruits

The debate about consumption has focused on imported goods, especially foreign cars, drinks, and consumer items such as TV sets and other home appliances and designer clothes.

It has particular relevance for exporters trying to break into a market which until now has been tightly restricted to domestic manufacturers.

Newspapers have chronicled the increasing rise of imports of very expensive products *such as chandeliers, marble* bathroom fittings, furs and jewellery, along with high speuding at entertainment places, where a night out can cost several hundred dollars per person.

But government officials say that the discontent which has been fanned by the media is not an anti-import campaign. The policy to opeu South Korea's markets is not in jeopardy, they say, pointing to high profit margins on luxuries as the cause of the trouble.

Newspapers have published analyses of the profit margins, often as high as 200 per cent on imported items, noting that the cost of imported products in South Korea is often quadruple the cost in the home country.

Big business groups, which own the trading companies bringing in imported goods, have attracted strong criticism, not only for the high profits charged on items which are reasonably priced abroad. They are also under attack for indulging in speculative investment in property which drives up housing costs and for trying to dominate all business fields by squeezing out smaller companies.

Ths result of this activity has beeu a concentration of wealth in a small upper echelon, which clashes with the *Confucian value of egalitarianism* so common in north-east Asia.

Tha Confucian tradition emphasises respect for hierarchical authority, hut it also stresses the duty of rulers to treat people fairly. Scholarly distinction and frugal living are venerated. Materialism, until very recently, was practically unknown in Confucian societies and being rich was not regarded as deserving of respect.

South Koreans have observed the development of the wealth gap in a more extreme form in neighbouring Japan, where speculators and large companies have scooped up financial assets such as land and stocks, putting home ownership out of the reach of many salary earners.

They are also starting to notice the wide disparity between prices for goods overseas and at home, having being allowed to make foreign trips for the first time this year.

South Korea may, however, have the best chance of the north-east Asian countries of tackling the wealth gap problem.

The Government has already announced that it will introduce a tax and land reform programme, including a modernised stock market system using real names in transactions, so that speculators can be taxed on profits.

The Government also seems to be approaching the question of high profits. The issue has been underlined by the release recently of figures showing margins of up to 200 per cent ou "luxuries" – which iu South Korea may include such relatively commonplace items as a melon selling for £10, or a bottle of Scotch whisky for £33.

Ministers say that imports of foreign products are heing allowed so as to introduce competition into the domestic market to upgrade quality, as well as in response to foreign trade pressure. They are critical of companies who are using open market opportunities simply as a way of making what they see as exorbitant profits.

The growing consumer movement in South Korea has also shown its muscle by forcing department stores to stop making false claims ou prices during bargain sales, and by making puhlic complaints about food testing standards.

But for exporters, the market remains difficult to judge. Like most developing countries in Asia, many South Korean consumers with money to spend feel that the more expensive, the better the quality, and therefore the more desirable *the product.*

Any manufacturer or distributor reducing product prices may therefore sacrifice profits in the short term – though in the long term he may gather public loyalty and consumer support for his product and his sales policy.

In a Confucian-stylz society auch as South Korea, it is becoming clear that getting rich and spending money is not necessarily always regarded as glorious. In gaining maximum profits and long-term market share, timing will, as usual, probably be the essence of success.

Maggie Ford

Maggie Ford on the rising tide of shop-floor unrest

Unions stake their claims

IN THE next six months South Korea will face two substantial challenges to its desire to become an advanced industrial country with a democratic political system.

The first is the need to come to terms with its past, and especially to eradicate the still festering legacy of the previous government led by ex-President Chun Doo Hwan.

The second is the need to set up a modern relationship between management and workers to end the destructive strikes and high wage rises of the past few years, which have eroded international competitiveness.

Serious obstacles lie in the way of a resolution to the twin problems, but confidence is now beginning to grow in the country's ability to find speedy solutions.

Negotiations have now been going on for two years between ruling and opposition parties over a settlement of the misdeeds of the former government. A year ago former President Chun apologised to the public for his actions, returned substantial funds to the state and departed for internal exile in a remote Buddhist monastery.

The opposition has, however, stuck by its demands that he testify to the National Assembly about his actions. Several other key figures in his regime are also required to resign from their present positions.

Victims of the 1980 military killings in the city of Kwangju must also be compensated and their reputations restored, in order for a settlement to be agreed. Ruling party officials now seem close to negotiating terms with the leaders of the previous government, observers believe, and a peaceful solution is expected to be found within the next few months.

The Government of President Roh tae Woo will then be in a far better position to push ahead with its policies, which have often attracted strong opposition from hardliners associated with President Chun.

One such policy concerns the future of the labour movement, which sprang up three years ago in the wake of the 1987 democracy demonstrations. Workers in South Korea reacted strongly to democratisation after years of suppression and the country has been through three years of serious struggle as workers sought their share of the country's prosperity.

President Roh tae Woo

Wage rises have averaged 20 per cent per year over the period, working hours have been reduced from 54 hours a week, the longest in the world, to 48, and unions have been recognised in most companies, with the exception of the Samsung group, South Korea's largest company.

The Government must establish an effective relationship between management and workers to end the destructive strikes and high wage rises of the past few years, which have eroded international competitiveness

But the change from an authoritarian to a democratic industrial structure has been plagued with wildcat strikes as democratic union leaders tried to oust "yellow" or pro-company leaders appointed in the past.

The internecine battles have led to continuous friction, under which companies have found that some union leaders cannot guarantee their members support for a negotiated deal.

Due to the system of company unions, which does not allow cross-sector pay deals, further disputes have occurred where richer companies offered higher rises, creating envy among workers in competing companies.

Wages as a percentage of costs in South Korea still remain at between 15 per cent and 20 per cent, so that in high value added industries such as motor cars, the country remains competitive, other factors being equal. Managers say that stoppages and production delays due to disputes at suppliers are causing the most damage.

The Government has remained neutral in many disputes but has allowed police to intervene in others, creating substantial distrust. It has made it clear that it wants a unified trade union structure, led by the Federation of Korean Trade Unions, and plans to crack down on a grouping of democratic trade unions formed earlier this year.

The FKTU, associated by many workers with the former regime, is undergoing a process of internal reform and seems likely to emerge eventually as a moderate but democratic organisation.

Efforts to set up a central arbitration system to resolve disputes have so far failed because of the lack of trust between workers and management. Union leaders complain that they are unable to get reliable figures of the company's performance on which to base their claims.

They accuse management of using violent thugs to terrorise workers, of withholding pay, breaking agreements and of conspiring with police to break up unions. Demanding higher and higher pay rises is the only way to force companies to treat staff decently, they believe.

Companies in turn complain that trade union leaders are radical Communists bent on destroying society and have attempted to sack or transfer workers suspected of being activists. Many workers criticise the "19th century" attitude of industrialists. Some industrialists, unions leaders say, believe that workers should be grateful to have a job at all.

The Government has moved to improve the macro-economic situation for workers by introducing welfare spending in the budget, reorganising the fiscal system and cracking down on speculation by companies in property, which was driving up home prices beyond the reach of workers.

It has also warned both sides that it will not tolerate violence and that both workers and management should realise they are all in the same boat.

Mr Kim Woo Chong, owner of the Daewoo group, whose shipyard was bailed out by the Government this year, may be moving towards acceptance of such a point of view.

Last year, after serious violent labour strife at the yard, he acceded eventually to demands from the trade ministry that he be personally sort out industrial relations as a condition of financial aid for the yard.

Mr Kim spent six months on the site, finding time to write his autobiography. Last month a delegation of trade union officials from the shipyard was sent at Daewoo's expense to Poland, where they are to meet Mr Lech Walesa, the Solidarity leader, and his colleagues at the Lenin shipyard in Gdansk.

No doubt the two groups of workers will find their beliefs in democracy to be much the same, though clearly the state of the country's economies could not be more different.

At the same time, other trade union leaders are travelling to western Europe and the US to look at industrial relations, and the Government is to set up an education and training centre at the FKTU for union officials.

Next year's wage round may see a watershed in South Korean industry, where the principle of unions is fully accepted by management, and the formation of representative unions is encouraged.

The outlook then will be bright, for South Korean workers' vitality is expected to remain undimmed so long as they are rewarded fairly for their undoubted contribution to the country's prosperity.

Seoul is no longer a low cost export base, writes **John Ridding**

High labour costs deterring potential foreign investors

AS THE Korean economy adjusts towards greater emphasis on domestic demand and more capital intensive production, so the incentives and opportunities for foreign investors are being transformed.

Whereas in the past foreign investors regarded South Korea as a low cost export base for cheap consumer goods the main attraction today is increasingly the domestic market and the potential for exporting higher value added products.

One of the principal factors in this change has been the sharp increase in production costs over the past few years. "Costs have advanced by leaps and bounds," says Mr Richard Leiber, co-chairman of the investment committee of the US chamber of commerce. "The days of cheap labour are over."

Not only have wages soared over the past two years as Korean workers have demanded their share of the country's economic success, but working hours have also been reduced. As a result, estimates Dr Jung Sun Sub of the Daewoo Research Institute, unit labour costs have advanced by as much as 40 per cent over the past year.

The impact on costs has been amplified by currency movements. Although the won is unlikely to appreciate by more than 2 per cent against the US dollar this year, it remains more than 20 per cent higher than its 1987 level.

In addition, wage demands and calls for union recognition have often been accompanied by strikes. Foreign companies have suffered at least as much as domestic organisations and in a number of cases there has been a strain of anti-Americanism.

The combination of these factors has certainly had an effect. In the first nine months of the year total new foreign investment fell from \$1.09bn to \$864m, a decline of about 20 per cent. Several existing investors have also pulled out of Korea. National Semiconductor and Tandy of the US, for example, both found it increasingly difficult to maintain sufficient profitability from their relatively labour intensive electronics businesses. Similarly, five of the 70 companies at the Masan free export zone have withdrawn their investments so far this year.

But as the incentives for export oriented investors recede the attractions of the domestic economy are increasing. The flipside of the higher wages being paid to Korean workers has been a sharp increase in domestic consumption. The Korean market, with 43m people and a per capita gross national product approaching \$5,000 provides a valuable source of demand.

In the longer term, many investors believe that Korea will be second only to Japan among the economies of the region and that it will provide a good base from which to export to other Asian economies.

From the Korean side there is a need for individual companies and the economy as a whole to gain access to more advanced technology. This is necessary to retain international market ehare from regional and lower cost competitors but is expensive and slow to develop domestically.

Where the incentives on both sides meet several substantial foreign investments have resulted. Volvo, the Swedish car manufacturer, recently signed an agreement with Seangyong, a Korean counterpart, to produce a Volvo model in South Korea and to jointly develop a new car. ICI, the UK chemicale group has two investments in Korea, one of which supplies chemicals with a high technical content for use in quality textiles.

As the incentives for export oriented investors recede so the attractions of the domestic economy are increasing. The flipside of the higher wages being paid to Korean workers has been a sharp increase in domestic consumption

For Mr Robert Milligan, President of ICI Korea, the operating costs are not the principal issue. "We haven't come here because of cheap labour. We are here because we believe long term it is going to be an innovative economy and will play a significant part in the region."

Because of its desire to attract high-tech investment the Korean government has retained tax exemptions for products or processes which it places in this category. In addition, new guidelines for foreign investors, issued to July, have smoothed the process of investment applications, guaranteeing that a decision be taken within 60 days and eliminating requirements to export a given amount of output.

Most important, however, is the gradual liberalisation of new business areas to foreign capital. Following an agreement in May between South Korea and the US several manufacturing and service areas, including pharmaceuticals and advertising, are now open to foreign joint ventures or 100 per cent ownership.

But in spite of these measures and the attractions of the Korean market, investors still face an array of disincentives. For Mr Michael Jackson, the British commercial counsellor in Seoul, the most important has been the frequency of strikes and labour disputes. He believes that the next wage bargaining round will be critical in showing whether an organised system of industrial relations is being formed but says that "so far there are few signs that Korea is choosing the consensus solution."

An additional consideration for foreign investors is the prospect of the loss of technology. Several Japanese electronics companies, for example, are reluctant to transfer technology because they regard lower cost Korean manufacturers as potential competitors.

This is one of the reasons why many foreign companies prefer taking an equity stake in a Korean company to licencing technology. There is also a feeling that licencing agreements tend to offer inadequate returns on R&D expenditure and product development costs.

Equity investments, however, are faced by the problem of financing. The government's tight monetary policy means that borrowing rates approach 20 per cent and that there are strict limits on foreign currency inflows. Foreign businessmen complain that they are particularly badly affected because they do not have the same access to Korea's banks enjoyed by local counterparts.

In addition, there are complaints that to spite of official liberalisation measures, new or remaining regulations often make it difficult to take advantage of the opportunities. When, for example, trading companies were allowed to be set up tight capital restrictions continued to provide an obstacle. Furthermore, Mr Milligan argues "it is still extremely difficult to make a 100 per cent investment even in the permitted areas."

But the Government has shown itself to be responsive to foreign concerns. At the beginning of the year, foreign companies, supported by US officials, campaigned against a requirement that all Korean companies satisfying certain criteria, including joint ventures and other foreign investments, should float on the stock exchange. They argued that control would be diluted and that it was unfair for such requirements to be retrospective.

In the event the Ministry of Finance accepted that the "going public" requirement should only apply to investments made after December 1988 and after the companies had been operating for a three year period. "The issue is now on the back burner" notes Mr Jackson, "I don't think it represents a serious disincentive, although it may crop up again at the end of the three year period."

By then, the total level of direct foreign investment in Korea should be comfortably ahead of the current \$6.8bn. How much ahead is hard to predict, although Mr Kim Kyo Shik, from the government's foreign investment policy division, believes its will remain at about 3.5 per cent of gross national product.

More certain is his prediction that the type of investment will increasingly be capital intensive, focused on the Korean market, with e growing presence of service industries.

Foreign investment trend by country (on approval basis; \$'000)

	1987		1988		1989*		Total 1962-89	
	Projects	Amount	Projects	Amount	Projects	Amount	Projects	Amount
US	93	255,140	104	284,401	72	262,843	692	1,874,946
Japan	207	493,899	177	696,244	99	383,035	1,876	3,425,295
Hong Kong	8	45,880	3	13,835	5	22,584	59	213,214
W. Germany	10	41,493	15	74,040	17	38,574	93	215,855
UK	6	48,329	8	21,781	7	39,191	45	174,650

*Jan-Sept

Ministry of Finance

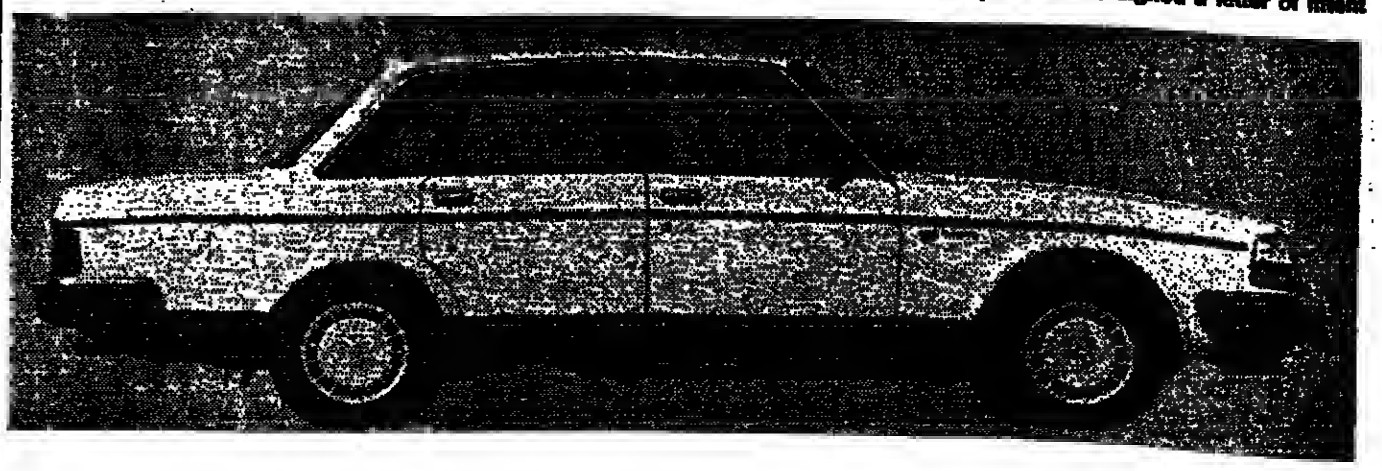
Foreign investment trend by sector (on approval basis; \$'000)

	1987		1988		1989*		Total 1962-89	
	Projects	Amount	Projects	Amount	Projects	Amount	Projects	Amount
Agri/fisheries	1	2,747	1	9,847	1	2,158	80	35,165
Manufacturing	323	779,345	273	738,174	143	568,196	2,450	4,406,413
Chemicals	45	153,401	44	237,471	22	145,408	308	991,146
Machinery	48	87,645	82	64,972	29	70,082	407	396,182
Electronic/ electronic products	80	212,157	55	269,884	29	90,637	547	1,099,862
Transport equipment	31	119,532	12	43,138	11	142,890	113	643,299
Services	35	277,158	65	533,065	94	293,560	419	2,385,958
Hotels	8	248,877	5	418,902	2	98,669	76	1,696,191
Financing	1	16,060	7	89,767	3	111,006	33	387,692

*Jan-June

Ministry of Finance

Foreign ventures: Hyundai's Canadian car plant, one of the biggest single Korean investments abroad. Below, Volvo's 200 series which will be the basis of a new model to be made in Korea with Seangyong. The two companies have signed a letter of intent



John Ridding on overseas interest in the Korean equities market

Investors pay high price for exposure

UNTIL the South Korean stock market is opened to foreigners in 1992, overseas investors who are hungry for exposure to Korean equities can satisfy their appetite only indirectly, through a handful of vehicles traded on the Euromarket.

Such limited access, combined with growing interest in the Korean market has prompted high prices for the available paper.

The seven unit trusts have traded on premiums as high as 100 per cent, while the Korea Fund and the Korea Europe Fund, two closed end vehicles, and the six convertible bond issues have generally been higher still.

The market is already capitalised at $140bn, making it the 10th largest in the world, and is expected to exceed $200bn by the time it is opened to foreigners

Not surprisingly, such premiums are discouraging to many investors. "Wa are not prepared to pay that sort of price to get into Korea," remarked the pension fund manager of one large UK company. "We will wait until the market opens before considering any investments there."

Bnt notwithstanding the occasional correction such as occurred following the Tiananmeu Sqnara massacre in Peking in June or the falls in international markets in October, the Korean Euro-papers have generally shown steady gains.

"The foreigners who got in early made a lot of money," notes Mr James Williams, a director of Barings International Investment Management, which currently manages more than $350m of Korean investments. He estimates that "certainly in our first four or five years we made about 12 times our money in dollars."

This year has also seen strong growth. In the first eight mouths the combined market capitalisation of the various issues increased by 55 per cent compared with seven per cent for the market as a whole.

Although the Euro issues, like the underlying index, have fallen off since then the total value of Korean paper now traded has grown in excess of $3bn.

Equally important, however, are the attractions of the underlying market to which some of the instruments will ultimately give access. Although the market has been disappointing this year, with the index showing a decline on January levels, analysts believe the longer term outlook is promising.

The market is already capitalised at $140bn, making it the 10th largest in the world, and is expected to exceed $200bn by the time it is opened to foreigners.

The high rate at which the Korean economy generates liquidity and the government's policy of developing equity financing suggest a strong source of demand. Furthermore, the market is relatively stable compared with some of its regional rivals, notably Taipei.

While the various instruments all enjoy substantial premiums their characteristics and performances show marked differences even within the three categories.

The Korea fund, which is approximately three times larger than its European counterpart has relatively good liquidity through its listing in Naw York but consequently faces US Secnritias and Exchange Commission regulations which prevent it from investing in financial stocks. When this sector performs wall, its more aggressively managed London rival has shown more rapid gains.

Although the high premiums enjoyed by Korean Euro-paper provides a cheap form of finance for Korean companies the outlook for new issues remains unclear

The unit trusts all have widely varying components with the largest, the Korea International Trust being the most closely indexed. However, the best opportunity for targetting investment lies with the convertible bonds where the premiums reflect perceptions of the underlying quality of the company.

The markets in all of the issues remain tight with daily volume averaging only between $5m and $10m. "It is not a country we particularly want to trade," says Mr Williams. "Even when our Korean positions adversely impact on profits we are not prepared to sell out because we are effectively locking money away in a place we regard as sound."

There is also at present little incentive to convert the issues. Some of the earlier instruments are now technically due for conversion bnt the high premiums would immediately be lost and the proceeds cannot be used to buy other Korean shares until 1991.

Although the high premiums enjoyed by Korean Euro-paper provides a cheap form of finance for Korean companies the outlook for new issues remains unclear.

The Korean government is committed to a policy of financial liberalisation and a schedule published in 1988 stated that restrictions on overseas issues by Korean companies would be relaxed.

As a result, analysts were expecting about a dozen issues this year as Korean companies sought to take advantage of low cost funding.

In the event, however, the government's concern about excess domestic liquidity and the requirement that funds raised on the Euromarkets are used for external projects has resulted in only one issue so far this year, albeit the country's first bond with warrant.

There are signs of an improvement. A $30m issue by STC, a flexible packaging maker is imminent and will be followed closely by an issue by Korea's second largest construction company. A third tranche is also planned for the Korea Europe Fund.

But until domestic monetary policy is eased and more foreign ventures are forthcoming from Korean investors then there is unlikely to be a substantial increase.

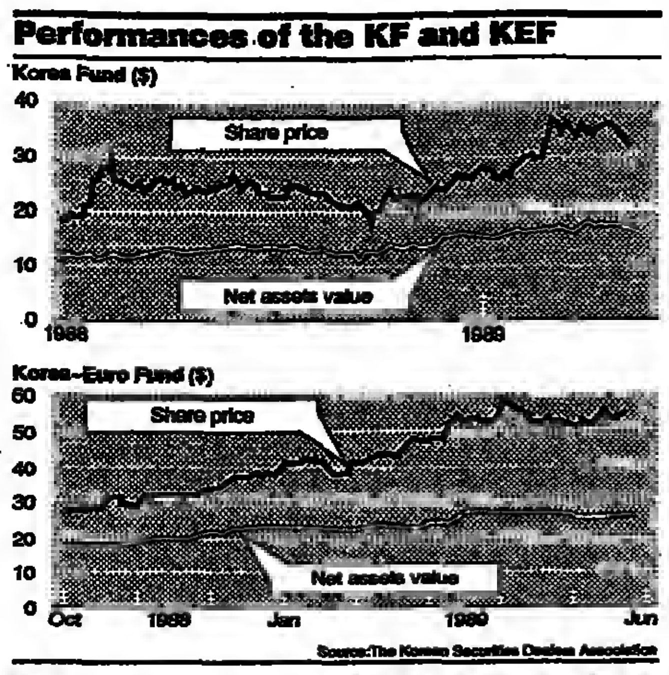
More certain is that the demand for available paper will further strengthen. According to Mr Gavin Roberts of James Capel: "The most potent reason for the rise in premiums this year seems to have been the proliferation of new Asian funds out of Europe and the UK."

Given plans to launch additional funds and the fact that a fixed percentage will be placed in Korean paper the upward pressure on prices will remain.

But as the countdown to market opening continues it is unlikely that the premiums can maintain their lofty heights. "We expect some erosion," says Mr Robert Simpson of James Capel, "perhaps to about 80 per cent by 1992."

But the likelihood that the opening of the Korean stock market to foreigners will initially be on a limited basis and that the underlying index will surge as 1992 approaches, should ensure the market for Korean Euro issues remains strong.

Performances of the KF and KEF



Source: The Korean Securities Dealers Association

Overseas investment vehicles for the Korean stock market ($)

Unit Trusts	Price Oct 31 '89	Net asset value Oct 31 '89	Premium (%)
Korea International Trust	104	60.10	73
Korea Trust	124	72.09	72
Seoul International Trust	74.5	43.22	72
Seoul Trust	73.0	41.81	75
Korea Growth Trust	73.5	42.78	72
Korea Small Com Trust	26.0	16.96	53
Korea Emerging Company Trust	27.6	17.21	60

Baring Securities

Convertible Bonds	Price (%) Oct 31 '89	Net asset value (%) Oct 31 '89	Premium (%)
Samsung Electronics	987.5	N/A	161
Yukong	322.5	N/A	157
Daewoo Heavy Industries	690	N/A	124
Goldstar	200	N/A	125
Saeham Media	180	N/A	131
Sammi Steel (Warrant)	55	N/A	203

Baring Securities

BARINGS

Patience a virtue in a tried and trusted place

IT IS perhaps surprising that a privately owned and family controlled British merchant banking group has been one of the most active foreign players in the internationalisation of South Korea's financial markets.

But since it first started doing business with Korea in the 1970s Barings has built up a strong position in its three areas of activity.

The merchant banking side has been one of the most widely used issuers of Korean paper, the investment management business is one of the largest holders of this paper, and Barings Securities, which makes markets in all of the Korean instruments open to European investors, is one of the most active traders.

At present, Barings, like all foreign securities companies is restricted to a representative office and all business is conducted offshore. The amount of business is also relatively limited. The past year, for example, has seen only a couple of issues on the Euromarkets.

None the less, foreign brokers are mushrooming in Seoul. By the end of this year, about 25 will have established representative offices and all of the big names are already there. The most recent, Salomon Brothers, opened earlier this month. Barings itself has almost doubled its staff in Korea over the last year and now has 18 people in its representative office.

"Competition has certainly become tougher," notes Mr Duncan Ross, Barings Chief Representative in Korea. "Supply is not keeping up with the demand from the foreign houses."

But for Barings as for the more recent arrivals, the main attraction of Korea is longer term and springs from the government's programme of financial liberalisation. In particular, the foreign houses have their eyes on the opening of the Korean stock market to foreign investment in 1992.

"Our basic philosophy is not to make money immediately," says Mr B.Y. Cho, a director of Barings Securities. "We are investing now so as to win the maximum returns when the Korean stock market opens to foreigners."

Although much can happen between now and then, Barings is confident that the market will have a strong attraction to overseas investors.

"Once the market is opened its capitalisation could represent between 3 per cent and 4 per cent of the world total," estimates Mr Cho. "Investment managers will feel a strong pressure to place part of their portfolios there." However, Barings, which is also active in the other East Asian markets, argues that the Seoul exchange has specific advantages over regional competitors.

Family force: the Barings logo

Unlike Taiwan, which is biased towards small and medium-sized industry, and Hong Kong which is property oriented, Korea is seen as having a broad range of established industries from steel, to semiconductors and textiles.

For Barings as for the more recent arrivals, the main attraction is longer term

It is also perceived as a relatively stable market. Although this partly reflects the absence of foreigners, who have tended to be fairly quick to sell in Tokyo, it is also the result of government guidance through the institutions. In October 1987, Seoul was one of the few world markets not to fall.

"Korea is a very sound underlying story," says Mr James Williams, director of Barings International Investment Management. "Other emerging markets are going to come and go but this is very much a tried and trusted place."

On the merchant banking side of the business, opportunities are likely to arise from an increased rate of corporate issues and from the development of merger and acquisition activities.

"This field of business is still at a youthful stage," says Mr Ross. "But I believe that Korea will follow a similar pattern to Japan, and more quickly." One reason is a desire to establish overseas plants in Europe to circumvent possible restrictions resulting from the creation of a single European market.

Barings believes that its relatively long involvement in Korea and its position as one of the most active foreign houses will strengthen its hand when these opportunities arise.

Not only will it have developed a research base, but it will be an advantage when the Korean government starts to award licences for branch offices, currently scheduled for 1991. In particular, it hopes to gain from the fact that it was the first UK merchant banking group to be allowed to set up a representative office in Seoul.

But competition for the rewards of liberalisations will not come only from its foreign counterparts. Domestic brokers will themselves be seeking to capitalise on the opportunities arising from the internationalisation of their markets.

"The competition from domestic brokers will be much stronger than from the Japanese in the early days of their financial liberalisation," says Mr Sean Goldrick, chief representative of Hoare Govett. "They have large staffs and have long seen the internationalisation of their market as a profitable opportunity."

For the foreign securities companies immediate returns seem unlikely. As in Japan, most are likely to find it hard to cover overheads for the first few years.

"I don't think it will be a very profitable source of business from 1992 because of the limited opening," says Mr Cho. "But we are confident about the markets prospects and will be patient."

John Ridding

Stefan Wagstyl reports on the conglomerates' moves abroad

The chaebol go international

AFTER years of single-minded commitment to exports, South Koreans are investing in overseas production. They are seeking to build plants in low-wage Asian countries to escape the pressure of spiralling labour costs in Korea and the appreciation of the won. And they need to invest in the US and in Europe to get closer to markets and to minimise trade frictions.

Also, there is increasing criticism in Korea of the dominant role of the conglomerates, or *chaebol*, in the economy. The top four companies – Samsung, Daewoo, Hyundai and Lucky-Goldstar – account for nearly 20 per cent of manufacturing industry. Foreign investment is a key way for these companies to grow without running into political trouble.

Moreover, overseas expansion will encourage these diversified groups to specialise and so improve their international competitiveness. Samsung, for example, intends to lean increasingly towards electronics.

Foreign investments are complex undertakings for groups which are newcomers to cross-border management. Like the Japanese before them, Koreans have run into clashes of culture which sometimes have undermined the benefits of investment.

Moreover, because international markets are much more competitive than 20 years ago, the Koreans have to move more quickly than the Japanese did when they were embarking on the first stages of their post-war internationalisation.

Korean overseas investment is starting from a very small base. Until the mid-1980s, foreign exchange was so scarce in Korea that the government rarely granted permission to invest overseas. The priority was to earn foreign exchange, not spend it.

But the rapid growth of the current account surplus, to $14bn last year, has removed much of the reason for restrictions. From an accumulated total of $476m at the end of 1985 overseas investment soared to $1.1bn by the end of last year with a further increase of $200m-plus expected in 1989.

In the first eight months of 1989, 140 cases were approved, worth a total of $138m.

As the figures suggest, most investments are quite small in terms of initial investment. But there are already some big exceptions, including the C$400m car assembly plant opened last year in Canada by Hyundai Motor, an arm of the Hyundai conglomerate.

However, the average size of investment is expected to grow rapldly as companias, for example, increase the size of pilot plants into full-scale factories.

While the first significant overseas investments were made as long as ago as the 1970s, big companies are only now heginning to conceive full-scale international investment strategies.

Mr Lee Sun Hak, a senior official of Samsung, which has the most developed foreign investment programme, says: "First you start exporting, then you establish sales companies, then a production hase and then a global marketing system. Four stages. We are in between the second and third stage at the moment."

Samsung has seven electronics factories overseas and plans nine more in the next two years. Currently, 5 per cent of production is abroad. In three years' time it will be between 25 per cent and 30 per cent.

The importance of the US market is highlighted by the fact that North America accounts for 43 per cent of accumulated external direct investment – boosted hy Hyundai's Canadian motor plant.

Europe accounts for only 8 per cent, a figure Koreans would like to see increase. Korean businessmen have neglected the European market for a long time since they judged the US easier to penetrate.

Mr Kim Suk Woo, a senior official at the Economic Planning Board, says that Korea needs closer economic ties with Europe to offset its dspendence on the US and Jspan. Korean companies are particularly keen, he says, on mergers and joint ventures with European groups since greenfield ventures msy not be walcome in the crowded European market. "We complement each otber. The Europeans have technology. We have production skills."

The most pressing need is to move offshore operationa which have been made uncompetitive hy a 100 per cent increase in costs in US dollar terms since 1986, taking account of pay increases and currency appreciation. Lsbonr-intensive industries, including textiles and electronic assemhly work, are estahlishing new plants in low-wage south-east Aslan countries, inclnding Thailand and Indonesia, and in China.

Some 27 per cent of total overseas investment is in the region, much of it in low-capitalised enterprises employing a few hundred people. Samsung assemhles video recorders in Thailand, refrigerators in Indonesia and microwaves in Malaysia. Goldstar has consumer appliance factories in Thailand and in Indonesia.

Koreans have already been overseas long enough to experience serious prohlems. Samsung and Goldstar started their US operations in New Jersey and Alabama respectively by assembling television sets from parts sent from Korea. But the high cost of local labour has driven hoth companies to switch mainstream television assemhly to low-cost Mexico. The American factories now concentrate on lsrge screen televisions and other consumer goods.

"Our expansion has not been totally successful," says Mr Lee of Samsung, "although it has not exactly failed." Korean executives say clashes with local workers have heen freqnent.

Mr Lee says Koreans have to learn about local culture, which is a polite way of saying that few workers in other countries are prepared to work as hard as Koreans. "If you ask Koreans to work overtime all night to meet an order they'll do it. Whereas in the UK..."

One difficulty is that few Koreans want to work abroad for a long time since such they feel excluded from the mainstream of the company. Another is that no Korean group yet has an integrated group management. The conglomerates are highly decentralised, so knowledge about foreign ventures is not shared easily.

Mr Suh Jung Sun, executive director of Daewoo Capital Management, an arm of the Daewoo conglomerate, says: "Our conclusion for the Daewoo group is that if there were no political pressures from the US and Europe it would definitely be better to produce in South Korea. The same is true for Japan."

South Korea's leading business groups

	Sales	Activities
Samsung	$31bn	Electronics, samiconductors, aerospace, food, ratailing, shipbuilding, insurance, hotels, trading, paper
Hyundai	$27.8bn	Cars, ahipbuilding, alectronics, semiconductors, construction, heavy machinery, financial aarvices, retailing, trading
Lucky Goldstar	$22.8bn	Electronics and semiconductors, telecommunications, chemicals, refining and petrochamicals, trading, financial services
Daewoo	$15.2bn	Hsavy machinary, cars, textiles, aero space, electronics, telecommunications financial services, hotels
Sunkyong	$9.3bn	Refining and petrochemicals, textiles and polyester products, trading
Ssangyong	$6.3bn	Cement, construction, cars, financial services, resorts
Hyosung	$4.2bn	Tsxtiles, heavy machinery, trading
Hanjin	$4.1bn	Transport, air (Korean Air) sea and road, hotels
Kia	$3.7bn	Cars
Korea Explosives	$3.4bn	Petrochemicals, hotels and resorts, financial services

Source: Bank of Korea

Hyundai in Canada

Springboard for a wider assault

THE brash and ambitious Hyundai Group is preparing the third leg of its extraordinary assault on the North American car market.

It has begun selling an attractive updated Excel and has also introduced a more powerful six-cylinder version of its Sonata mid-size model. It has begun production at a new C$400m (£218m) assembly plant near Montreal.

The Hyundai Motor Company subsidiary has tried to do in five years what the more cautious Japanese have done in 20. It entered the Canadian market in 1984 with the rear-wheel drive Pony sub-compact and the Stellar compact. In 1985 Hyundai sold almost 80,000 units, mostly in eastern Canada, and built up a dealer network.

In that year it held number one foreign import spot in the Canadian market, well ahead of Toyota, Nissan and Honda.

But from that point on it was downhill as buyers found that the Pony could not withstand heavy Canadian usage and the vicious inroads of road salt during winter.

But Canada was the spearhead for the attack on North America, and in that initial thrust Hyundai briefly claimed 21 per cent of the Canadian small car market. It spent C$8m on advertising alone in 1984-85.

Next, Hyundai Motor, minority owned by Japan's Mitsubishi Corp, launched its second thrust: the Excel sub-compact, clearly influenced by Mitsubishi and a more rugged model with front-wheel drive.

The Excel shored up Hyundai in Canada, while making one of the most successful imported car introductions ever in the US. More than 250,000 Excels were sold annually in the US in 1986 and 1987, until the novelty wore off and a slow decline set in with tougher competition from the Japanese.

But Hyundai, based on the early Pony success and its confidence in future models, was determined to assembly in Canada for the whole North American market. The C$400m project astounded the industry with its location at Bromont, near Montreal and C$110m in Quebec and federal government aid.

Quebec had only one car assembly plant, a General Motors Canada unit, and the political conditions were favourable when Hyundai made its announcement late in 1985.

It was the personal decision of Mr S.Y. Chung, former president of Hyundai Motor. He called in Montreal engineers to design the plant with his company. It was located in a French-speaking area where a young work force could be recruited but the language difficulties have been great.

The plant started commercial production of the Sonata this spring, only a few months behind schedule, and Hyundai is building a C$120m stamping plant alongside.

Hyundai could not have got that government assistance today. With the 1988 Canada-US Free Trade Pact, Canada has agreed to reduce subsidies for new industrial projects to almost zero. This means confining support to training programmes, though individual provinces can pay for infrastructure and may offer loan guarantees.

In the first 10 months of 1989 Hyundai sold 24,600 Excels and Sonatas in Canada and 160,700 (mostly Excels) in the US. The comparable figures for 1988 were 26,520 in Canada and 225,000 in the US (all Excels).

The Bromont plant will make between 10,000 and 12,000 Sonatas this year, using a single shift, while the company brings in the higher powered version from Korea with the new more competitive Excel. The Sonatas will also go to Taiwan next year.

In 1991 Bromont will begin making a slightly different Sonata for Chrysler Corporation for delivery in the US. It will only reach the maximum 100,000 units a year by 1991 or 1992 with two shifts.

The Canadian value added is now about 25 per cent, but it will be some time before this reaches the target 50 per cent for maximum tariff advantage on US exports. By 1991, with the Japanese transplants fully in operation, North America expects to have surplus car assembly capacity of 2m units a year. More older assembly plants will have to be closed.

Mr Lee Yoo-Il, president of Hyundai Auto Canada Inc, insists the Bromont plant was built to penetrate the North American market which can easily absorb 100,000 Sonatas a year. "We'll market the new Sonata wherever the public demand may be, from Bromont or from Ulsan."

North American challenge: Hyundai's car plant, Canada — Robert Gibbens

Martin Regan on why Samsung opted for a UK production base

Labour's pulling power

AN IMPORTANT strand in the European strategy of South Korea's larger companies is to create manufacturing capacity where it can service a strong national market. The wider view, of each European nation as a gateway to the others, though important, is secondary to the exploitation of individual markets.

Although, at present, the number of South Korean companies with production capacity in Europe is small, it will increase rapidly over the next few years, according to Mr Young Kwon, ths managing director of Cleveland-hased Samsung UK.

Samsung arrived in the north-east of England in 1987 after examining more than a dozen sites in three countries

"I think it must increase because Europe is not going to be a free market; it is going to be a manipulated free market. If others do not come, then they cannot grow and the Europesn market is very important to my country's growth," he said.

Mr Kwon also believes that those countries with estahlished markets in consumer electronics, such as the UK and West Germany, will be well placed for future investment.

Samsung arrived in the north-east of England in 1987 after examining more than a dozen sites in three countries. With television manufacture concentrated in Portugal, their requirement was for a facility to make video-recorders and microwave ovens.

The UK, ssys Mr Kwon, offsred a variety of attractions, not least that it was Europe's largest market for microwaves. Language was also a key factor in the decision.

"We came to the UK because it is an English-speaking country and that is very, very important. The country is also very influential within Europe and the market for our products is good," he said.

The choice of Cleveland for the £20m investment was made on the basis of its low unit labour costs and the easy availability of a skilled workforce. A joint approach from the Northern Development Company, the north-east's inward investment organisation, and the county council, found an ingenious solution to Samsung's requirements by refurbishing a disused electronics factory.

According to Mr Paul Grosvenor, of the Northern Development Company, the amount of grant-aid was not the main factor in the decision, although tha financial package hased around regional selective assistance was superior to that offered by other regions.

Originally, it was anticipated that the factory would employ 200, rising to 300 hy 1991, but the squeeze on consumer spending has kept staff levels at around 160. Mr Kwon says further increases depend on the performance of the UK economy.

Last year, Samsung was followed into the north-east by Goldstar, which has huilt a £14m manufacturing facility on a greenfield site near Jarrow, an area covered by the Tyne and Wear Development Corporation.

The factory, which employs 60, produces microwave ovens. Television and VCR prodnction is concentrated in West Germany, the company's largest market. The initial entry into the UK market-place has been cautious but land adjacent to the new factory is available for expansion. Eventually, the company expects to increase its workforce to around 300.

Mr Chung Lee, the managing director of the UK operation, agrees with Mr Kwon that low unit labour costs and a skilled workforce are the north-east's main attractions hut adds that the Samsung presence in the area was a further consideration.

Both companies operate without union agreements and have so far enjoyed good industrial relations. The traditional boundaries between management and workforce do not apply. Instead, along Japanese lines, managers manage from the shop floor, sharing the same canteen, toilet and recreational facilities with all employees. Every employee has salaried status.

Initial employee fears over the management style of the South Koreans have largely disappeared. Indeed, Mr Kwon questions whether there is such a thing as a South Korean style.

"We are a very fast-growing country and so we do not yet have any clear style of management. If it is advantageous for us to take certain parts of the Japanese or western methods then we will do so," he said.

The potential for cultural misunderstandings is minimised by a disputes procedure which, until its final stages, is handled solely by the British managers. The South Korean management is reluctant to become involved.

The choice of Cleveland was made on the basis of its low unit labour costs and the easy availability of a skilled workforce

Mr Kwon said: "We have had no problem with our workforce because they are appreciated by our management. We are foreigners and there is nothing we are not prepared to learn. This makes our attitudes much more flexihle.

"Wa hope we can listen to what our workforce wants and in this respect wa are in a mnch stronger position than many British companies who can take many things about employees for granted."

In spite of this, the non-union policy is not universally welcomed. At Samsung, sevsral staff hava openly advocated unionisation, though the management maintains that no official approach has been made. Salaries are slightly above the industry average hut the lack of any real wage bargaining mechanism is not popular.

However, the prospect of union recognition does not exist. Only a handful of employees are thought to want a union and senior managers confirm that the policy is a corner-stone of the South Korean strategy.

Mr Kwon said: "The workforce has no need of a union. I cannot control what my employees want but they are fairly paid and fairly treated."

In spite of the cultural differences, the companies are keen to enter the mainstream of UK business life, seeing themselves as British companies which happened to be owned hy South Korea rather than South Korean companies operating in Britain.

Mr Ray Couch, the personnel manager of Goldstar, says the similarities between the South Koreans and the British outweigh any differences.

"There is nothing about the company which you could say was intrinsically Korean. In fact, if it was not for the Korean managers on the ahop floor, it could be any British company. There is no attempt to force change and I think this is recognised and appreciated by the workforce."

LOTTE WORLD

Cash rich Koreans help leisure group tap a lucrative market

THE largest foreign investment in South Korea, is not a semiconductor plant or a car factory, but, perhaps surprisingly, an amusement park. Even more surprisingly for a foreign investment, it is owned by a Korean.

The Lotte World, a giant complex in Seoul includes a Disneyland style fairyland and funfair for young and old, a Korean museum and traditional village, a large ice skating rink and an outdoor children's park.

It was established this year by the Lotte Group, a South Korean company whose owner Mr Shin Kyuk Ho, divides his time between Seoul and Tokyo, where be is technically resident and also owns a large company.

Ths group had sales last year of $2.5bn in South Korea. Lotte's investments, mainly in botels, processed food and the amusement park, amount to $1.7bn, a quarter of the total foreign investment in Sonth Korea over the past 25 years.

"Lotte Shopping" has now become a byword in Sonth Korea for the consumer boom which has swept the country since the Olympic Games were held in Seoul a year ago.

Along with other department stores the company has seen sales shoot up, as housewives clamour to spend the money which symbolises the country's new prosperity.

Wage disputes and strikes, which have broken out as the country moves from authoritarianism to democracy, have put further cash into peopls's pockets leading to average monthly income per person of $652, with Seoul residents earning more than double.

'Lotte Shopping' has become a byword for the consumer boom which has recently swept the country. The Lotte group has seen sales shoot up, as housewives clamour to spend the money which symbolises South Korea's new prosperity

A sense of pride in the country's achievement has also encouraged South Koreans not to worry so much about the cost of the goods they want to buy and to start enjoying their leisure time.

The Lotte World, along with its adjacent hotel and shopping complex, opened partially in January this year and has a sales target of 282bn won ($420m) for the year, of which 227bn won has already been achieved. Next year's target is 390bn won and the complex is expected to break even in three years.

The cleverly laid out amusement park was designed by an American company, so lacks the rather grandiose style of the Lotte hotels. Visitors to the complex praised it highly, especially for its ability to cater to all ages, including very young children.

Although rides and admission fees are rather high, the complex offers Koreans, who have not been able to travel abroad until recently, an international touch, with a French village, an Arabian Nights section and quarters with English and German themes, complete with security guards dressed in the relevant national polics costumes.

At the Korean village, which attracts both tourists and Koreans who are nostalgic for tradition, the history of the country is laid out with artistic replicas and includes a look at both ancient court ritual and the lives of ordinary people.

One of the most interesting displays covers the period of the Japanese occupation of Korea, an era which is normally ignored in most government museums, and which might be especially sensitive to a Korean with Japanese interests.

But Mr Shin Kyuk Ho, owner of the group and one of the richest men in Asia, believes that Korea should be honest abont its history, and the company has yet to be criticised about the section.

The Lotte gronp has been one of the first companies to realise the potential of the South Korean market, where local incomes are now the second highest in Asia after Japan and the population is extremely youthful.

Its amusement complex has been so snccessful that its potsntial is thonght to be broader. In true Korean style Lotte is now working on plans to export the idea to the US.

Maggie Ford

Valeo-Pyeong Hwa

Marriage of foreign expertise and strong domestic demand

TAEGU, an industrial sprawl on the east of the Korean Peninsula and the country's third largest city, is a world apart from the Paris base of Valeo, one of Europe's largest automotive components manufacturers.

But Valeo has a strategy of establishing design and production centres near the world's largest automobile manufacturers, and nowadays this means Korea. Hence the decision to link up with Pyeong Hwa, one of Korea's two largest clutch makers, and form a joint venture.

"That is the one simple reason why we are here," says Mr Arnaud Le Bec, executive vice-president of Valeo-Pyeong Hwa. "We want to supply car makers like Hyundai, Daewoo and Kia as the Korean automobile industry expands."

Valeo is not alone. Most of the world's large components groups are already in Korea and this year the automotive sector has been by far the most attractive for foreign companies. In the first nine months, direct investment into the sector totalled $143m, an increase of more than 200 per cent over the comparable period.

More broadly, Valeo's move illustrates the developing trend of matching foreign interest in the Korean market with a demand for technology on the part of Korean companies.

If Valeo's incentive motives for setting up the joint venture were clear so too was its choice of partner. Pyeong Hwa clutch, which was built up by Mr Sang Yeong Kim, now the president of the joint venture, supplies all of the clutch requirements of Hyundai Motor Corporation, the country's largest car maker.

Since its expansion into international markets, HMC has been encouraging its suppliers to forge links with US and European companies to improve quality and to develop its own independence from Mitsubishi of Japan, which holds a 15 per cent stake in HMC and which has thus far supplied most of its design and technology requirements. As a result, Pyeong Hwa sought an alliance from among the ranks of the leading international components groups.

Many components groups are already in Korea and this year the automotive sector has been by far the most attractive for foreign companies

The tie-up between Valeo and Pyeong Hwa, which was completed in May 1988 and which has created a company capitalised at £30m, is on a 50/50 basis. According to Mr Le Bec, this reflects the contributions from both sides.

Valeo supplies technology in two principal ways. Certain equipment which is specific to the company's production process is supplied to the joint venture and then reproduced. The most striking example is a Valeo heat processing machine, alongside which stand three replicas in an early stage of development.

Design know-how, in contrast, is imparted by the five expatriate engineers and the establishment of a training course in France for Korean employees.

In return, Valeo receives a share in the valuable Hyundai contract plus additional contracts from Kia and Daewoo, two other local car makers. Combined, these are expected to bring sales of about £30m next year. Production is based at a new site, opened in January, which is expected to put out more than 2m clutches next year.

Perhaps more important, the link with HMC provides a strong base through which to develop in the Korean market. Although the joint venture currently produces only clutches and facings, the longer term aim is to supply other of Valeo's products such as radiators and headlights.

But, for Valeo, the establishment of a potentially lucrative base in the Korean market has not been without difficulties. The negotiations took eight months to complete, partly reflecting differing opinions over whether the contract should include Pyeong Hwa's existing business. Even after signing many obstacles remained.

"Signing the agreement does not mean you are joined," says Mr Le Bec. "The day after you sign you start negotiating again."

One of the principal unresolved areas concerned Valeo's role in day-to-day management and Pyeong Hwa's diffsrent management techniques.

The language barrier and the reluctance of the existing management team to relax control meant that Valeo was one step removed from the running of the husiness. "At the beginning we were like six auditors," notes Mr Le Bec. "The situation has improved day by day, but it is a long process."

In an ideal world he believes that expatriates should spend a year with their prospective joint venture partners to gain experience of the company, its people and how it works. "In the end our contract was a good agreement, well done. But the best lawyers on earth will never solve some of the difficulties which arise."

For a company like Valeo, there is also the qnestion of how to protect its technology and know how. Mr Le Bec believes that the problem is solved by the terms of the joint venture agreement which stipulate that if either company makes clutches elsewhere in Korea it becomes subject to a penalty in excess of $1m.

Potential problems are also raised by the broader economic environment which this year has seen labour disputes, sharply higher wages, and a slowdown in outpnt growth.

Valeo-Pyeong Hwa was one of the few HMC suppliers that did not suffer strikes. Mr Le Bec puts this down to the existing management which retains a relatively firm control over the workforce. He sees this as an important reason for investing in Korea through a joint venture. "As foreigners, last year we could not have controlled the company."

None the less, part of the price for industrial peace was a sharp increase in wages which saw workers' salaries rise by 37 per cent. Since labour costs still account for only 14 per cent of the total this is not too great a concern but the coming spring wage round is seen as critical in determining wbether a pattern has been established.

But for Valeo, like many of the foreign investors now coming into Korea, costs are not the central issue. "We are not in Korea to make cheap products," says Mr Le Bec. "We are here because we want to be part of the industry's growth."

John Ridding

John Ridding on the financial community's ventures overseas

Still at an experimental stage

OVER the past few years, South Korean stockhrokers and life insurance companies have been springing up throughout the world's financial centres.

Tbe handful of the larger securities companies all now have offices in Tokyo, New York, London and Hong Kong, a pattern which is being followed hy their smaller counterparts. Life insurance companies too are busily expanding their international departments although so far only the largest, Samsung Life, has representation to match thst of the securities houses.

The expansion overseas follows a relaxation in official regulations as part of the government's financial liberalisation strategy.

Last year, certain financial institutions were allowed to make limited overseas investments and will be allowed to open branch offices in 1991. By the following year there should have been a substantial relaxation on the overseas investments permitted for individuals and companies as well as for financial institutions.

For the moment the latter may make only small investments in overseas markets. Securities companies are limited to a total of $30m while life insurance companies and unit trust companies are limited to $10m each.

Even within these restricted amounts Korea's institutions have displayed a cautions approach to overseas investment and their total portfolios are well short of the limits. "We are still at the experimenting stage," says Mr Roh Tae Ho, manager of ovsrssas investment at Daewoo, the largest securities company.

None the less, the overseas investments do form a pattern. The most favoured stock market has been Tokyo, with London snd New York being regarded as relatively unattractive. Most houses have also put a high proportion of their funds into Korean Euro issues, partly to raise short-term profits but with the additional aim of becoming market makers in these instruments.

In the longer term, the international bnsiness of Korean financial groups is certain to be a more substantial affair.

The high domestic savings rate and favourable trade balance will continue to create high liquidity, a proportion of which will flow overseas. Even a small portion of Samsung Life's massive $10bn of assets would represent a significant increase in outward portfolio investment. In addition, the opening of Korea's own financial markets will provide the opportunity of selling Korean shares to foreigners.

For Mr Ho C Yang, managing director of Dongsuh Securities, the best strategy in international expansion is to be selective. "For the time being we bave to find niches and concentrate on activities that we know."

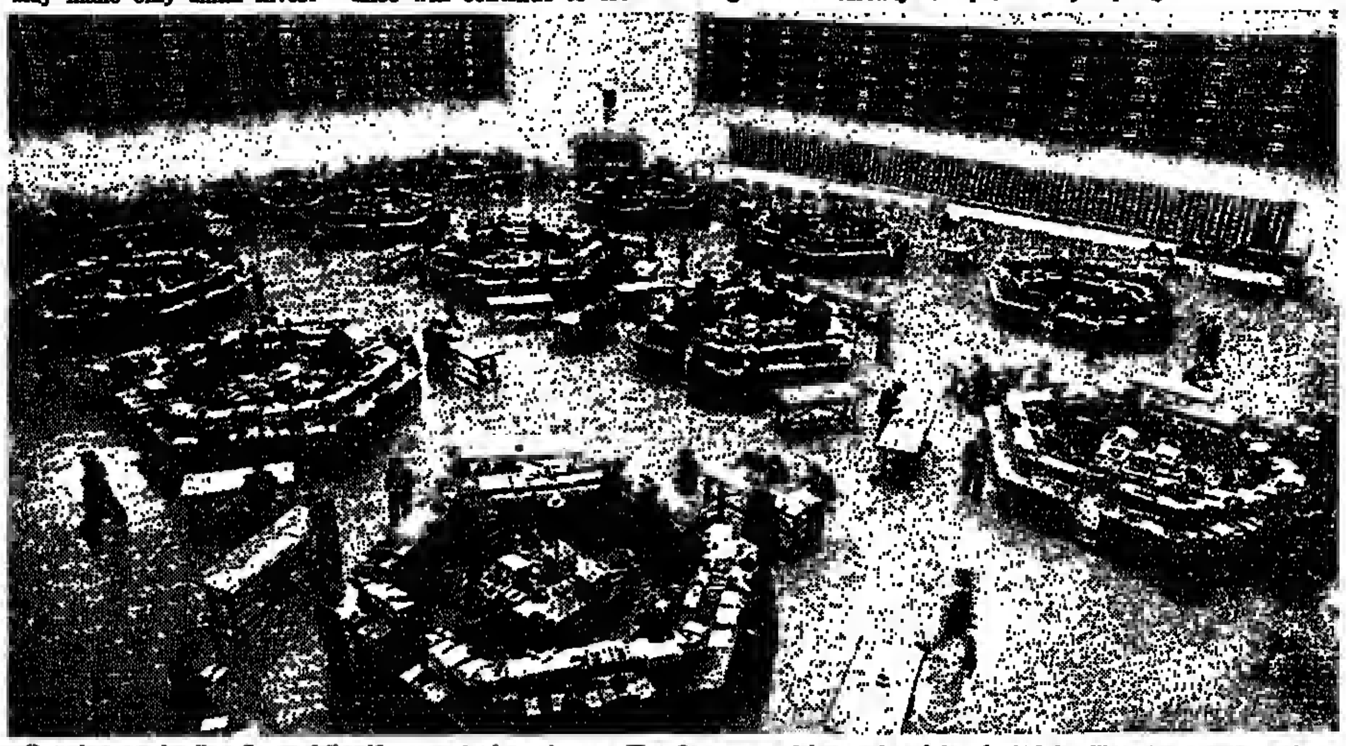
In practice this is likely to mean greater involvement with Korean companies as they expand overseas and look to the Euromarkets for chsap funds. Korean Securlties houses have already been active in s number of convertible bond issues, getting their names on tombstones for publicity but also to gain experience of share placings.

Other areas of interest concerning the sale of foreign government bonds to Koresn investors are the development of real estate businesses. Samsung Life has already set up s real estate subsidiary in the US.

But in the development of their internotional business, Korean institutions will face two principal obstacles. Most immediately there is the problem of gaining expertise in the various foreign markets. This is exacerbated by the traditional insularity of Korea's financial markets and the different dynamics of the Korean stock market. In particular, there is less empbasis on company fundamentals, and like Japan, more official guidance through the large hrokers.

Liberalisation will also bring the domestic institutions into competition with their foreign counterparts. In the domestic market they hold advantages relating to experience and corporate contacts. In addition, they all have large staffs. Daewoo, for example has between 40 and 50 analysts and s dozen economists.

Overseas, however, the Korean institutions are likely to find the going mucb tougher. Many msy feel that the sizeable investments required are too high, particularly when the domestic market offers potentially rapid growth.



Opening up: trading floor of the Korean stock exchange. The Government has set a date of 1992 for liberalising the markets